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U.S. ASSISTANCE PROGRAMS FOR ECONOMIC AND  
POLITICAL REFORM AND DISMANTLING OF  
WEAPONS OF MASS DESTRUCTION IN THE  
NIS

Y 4. IN 8/16:EC 7/6

U.S. Assistance Programs for Econon...

HEARING  
BEFORE THE  
COMMITTEE ON  
INTERNATIONAL RELATIONS  
HOUSE OF REPRESENTATIVES  
ONE HUNDRED FOURTH CONGRESS

FIRST SESSION

MARCH 3, 1995

Printed for the use of the Committee on International Relations



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## U.S. ASSISTANCE PROGRAMS FOR ECONOMIC AND POLITICAL REFORM AND DISMAN- TLING OF WEAPONS OF MASS DESTRUC- TION IN THE NIS

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FRIDAY, MARCH 3, 1995

HOUSE OF REPRESENTATIVES,  
COMMITTEE ON INTERNATIONAL RELATIONS,  
*Washington, DC.*

The committee met, pursuant to call, at 10:12 a.m., in room 2172, Rayburn House Office Building, Hon. Benjamin A. Gilman (chairman of the committee) presiding.

Chairman GILMAN. The committee will come to order. I regret the delay. We had a Republican conference that went on a little longer than we thought.

Today the Committee on International Relations will be taking testimony from three of our top executive branch officials, who are charged with managing the bulk of our bilateral assistance programs in the New Independent States of the former Soviet Union.

Appearing before the committee this morning will be Ambassador Tom Simons, State Department Coordinator of Assistance Programs for the New Independent States; Tom Dine, Assistant Administrator for Europe and the New Independent States at the Agency for International Development; and Dr. Harold Smith, Assistant to the Secretary of Defense for Atomic Energy responsible for implementation of the cooperative threat reduction or Nunn-Lugar program, as it is known. Also in attendance is John Herbst, Deputy Senior Coordinator for the New Independent States, Department of State.

I would like to note at this time that Mr. Herbst is not prepared to deliver testimony. He is here at my request to respond to any policy questions that might arise in the course of the hearing.

The hearing today is intended to allow the members of our committee to focus on our bilateral assistance programs for the New Independent States, and it is indeed timely, to address the issues surrounding those assistance programs.

The review and consideration of the National Security Revitalization Act by this committee and this House at the very beginning of this Congress prevented us from organizing this important hearing earlier.

I, therefore, want to thank the gentlemen who are here today for making time in their busy schedules to appear before the committee to give us the benefit of their views. Given the approaching debate on funding of our Government agencies and programs across



the board, I think it is vitally important that we have at least one hearing at this point devoted strictly to our assistance programs in the former Soviet Republics.

Before we start, I do want to inform the members of the committee of our plans in going beyond our assistance programs to fulfill our policy oversight responsibilities with regard to Russia and the other New Independent States. While I have asked Mr. Herbst to join us to address any policy questions that may arise today, it is my intention to schedule two meetings in the near future that should allow not only the committee to focus on our policy toward the New Independent States, but to do that at length with two of our top officials in the region.

First, it is my intention to invite Mr. Jim Collins, the State Department Senior Coordinator of the New Independent States to appear before our committee at some point in the next few weeks. At that time, Mr. Collins will be asked to provide testimony on our policy toward all of the former Soviet Republics, and also to focus specifically on two things, developments in Russia and the state of relations between our Nation and Russia.

Second, it is my intention to ask our Ambassador to Russia, Thomas Pickering, if he can find time in his schedule in the near future to sit down with the committee members in a closed meeting, and give us his insights on the latest developments in Russia.

I hope that that will respond to the concerns of those members of the committee who are right to feel that we must address the numerous policy issues that we now face with regard to events in Russia with regard to our foreign policy.

And with that, I would like to invite our witnesses here today to give us their perspectives on the status of our assistance programs, not just in Russia, but also in Ukraine, Armenia, Moldova, and the other New Independent States as well.

Before I do that, I turn to our ranking minority member, Mr. Hamilton, for any opening remarks.

Mr. HAMILTON. Mr. Chairman, we commend you for this hearing, and the ones that you have outlined in your statement. We look forward to the testimony of our witnesses. We are delighted to have them here. Thank you.

Chairman GILMAN. Mr. Smith would like to make a brief opening statement.

Mr. SMITH of New Jersey. I want to welcome our distinguished witnesses. And also to thank you, Mr. Chairman, for holding this timely and important hearing. The end of the Soviet Union and the birth of the New Independent States is one of the great success stories in human history. It has been a great victory not only for the peoples of these nations, but also for the idea of freedom. But nothing important comes cheap, and we should not find it surprising that the end of a long established order, even a very bad one, has had its transition costs. And as these costs come due, we hear from time to time the suggestion that perhaps the Soviet Union was not so bad after all.

It is important that we reject this monstrous notion, and all that it implies. Mr. Chairman, if a bipartisan U.S. foreign policy means anything, it should mean agreement on the fundamental principles that freedom, even a fragile and uncertain freedom, is better than



slavery. As long as aid to the New Independent States is designed to preserve and enhance freedom and to promote human rights, I know that this administration and any successor administrations will be able to count on broad bipartisan support for such aid in Congress.

But this is only the beginning of the necessary analysis. The American people are skeptical of foreign aid not because they believe it has vaccinated too many children, or fed too many starving people, or turned too many swords into plowshares, but because they believe that it has paid for too many government offices, paid for too many limousines, and perhaps has paid for too many pairs of designer shoes.

Foreign aid, even to the most needful and deserving nations in the world, must never be immune to the hard questions about fiscal prudence and about whether we have got our priorities straight. When such questions are asked constructively, they should not be unfairly characterized or construed as isolationist or as hostile to the countries in question.

Finally, we must also face the difficult questions that arise when countries which are generally free and democratic, or are at least headed in these directions, nevertheless expend some of their resources on aggressive military adventures or on repression against their own citizens.

In these situations, we have a moral obligation to ensure that all of our aid is spent to help the people that it was designed to help, and that none of it is spent either directly or indirectly to injure or to kill them.

I thank you, Mr. Chairman, and I yield back the balance of my time.

Chairman GILMAN. Thank you, Mr. Smith.

Do any of our other members have any opening statements?

[No response.]

Chairman GILMAN. If not, I will ask our panelists to please proceed. Ambassador Simons.

#### **STATEMENT OF AMBASSADOR THOMAS W. SIMONS, JR., COORDINATOR OF U.S. ASSISTANCE TO THE NEW INDEPENDENT STATES**

Ambassador SIMONS. Mr. Chairman, I am pleased to be with you and your colleagues to urge your support for the administration's fiscal year 1996 budget request for assistance to the New Independent States of the former Soviet Union.

I have submitted a prepared statement for the record. With your permission, Mr. Chairman, I would like to summarize it here.

Chairman GILMAN. Without objection.

Ambassador SIMONS. Since you will be holding hearings on the administration's overall policy toward the NIS, I will say only that assistance is part of that overall policy. That policy has a strategic objective. It is to put the greatest threat that our Republic has faced in its history irreversibly behind us, by working with 12 new nations to help them become free, equal, and reliable partners in a better international community for the 21st century.

We use many means to pursue that objective. Diplomacy, political and economic engagement. We encourage the engagement of

our private sector, our businesses, our media, and our private voluntary organizations. And we promote vibrant ties between our societies, between people of all ages and all walks of life.

Mr. Chairman, that strategic policy objective has been supported by overwhelming bipartisan majorities through two administrations and two Congresses working in partnership. Assistance is only one part of that policy. But Mr. Chairman, it has been and is today a vital part.

This is because for the New Independent States to become reliable partners in the modern world community, they must choose and implement broad ranging and painful democratic and market reform. And this assistance program is the best vehicle that we have for encouraging and helping reformers in the area to choose and stick with that kind of reform.

So Mr. Chairman, this program is defense by other means, at a fraction of the cost that we have paid for defense in the past, and that we will have to pay for defense in the future, if these transitions fail. It also brings major benefits not only to our security, but to our economic well-being and our capacity for international leadership.

Mr. Chairman, this is foreign assistance with a difference. Most NIS countries have rich resources and substantial infrastructure, so that they are not less developed in any traditional sense, but only misdeveloped in terms of the new goals of democracy and the market that they are setting for themselves.

So that the task of assistance is not to help them build infrastructure and release resources, it is to help and encourage them to use resources that they already have to build those goals of democracy and market oriented economic management irreversibly into their political and economic structures.

The whole process of transition may take decades. But building these goals into their structures can be done in years. And this is therefore a high impact program for the decade of the 1990's only. We intend to shut down most of it by the end of the decade, and turn the job of fostering and anchoring the normal economic relations among equal partners that we seek over to our private sector.

But for the program to do its job, Mr. Chairman, it must be adjusted to meet three interrelated needs, two new needs and one continuing need, and funded at the minimum levels required to meet those needs this year and next.

Let me describe those three needs briefly. The first new need is to support the second wave of NIS reform that is now ready to break, but can do so only if the outside world gives it adequate resources to start.

Reform has come to the NIS area not evenly and steadily, but in two waves. In 1992 to early 1994, the Russian Federation, the Kyrgyz Republic, Moldova, and Kazakhstan led the way.

We operate in all 12 New Independent States, but we have put disproportionate resources into these four countries. Because it was there that the hard choices needed to leave communism and introduce democratic governance and market-oriented economic management were being made.

But now a second wave is gathering force, now in 1995. At least four more countries are choosing to move through comprehensive

reform programs agreed to with the International Monetary Fund and the World Bank. These countries are Ukraine, Armenia, Georgia, and Belarus. And after 2 years of decay and delay, all of these countries need very substantial international support, if they are to put these programs through.

We wish to lead the international effort to mobilize that support. Last month, I led a fact-finding mission of senior officials to Ukraine, Belarus, Armenia, and Georgia, the leaders of the second wave, to gauge their commitment to broad-ranging reform and to ascertain their absolute top priority needs for 1995.

Let me report on some of our findings. We found that they have made impressive starts under initial programs. We found that their commitment to move forward is impressive. They are grateful for what we have done for them in the past. But they consider 1995 to be the make-or-break year for their reforms. And they expect U.S. leadership in finding the international support without which they cannot go forward.

To lead, we must have the resources to do so in this program. And our budget request provides for them at a bare minimum level.

Second, Mr. Chairman, if this program is to be successful, we must also help U.S. business meet the rising demand for U.S. trade and investment. This rise in demand is a fruit of successful reform, and hence it is strongest in Russia and the other first wave countries.

Privatization and private sector development are producing eager partners for U.S. business. Over the longer run, U.S. business should and must operate in these countries without U.S. taxpayer support. But at this stage, the economic risks of trading and investing are still formidable.

We need robust technical assistance to help build the new market environment that business needs to flourish. But even before that environment is in place, we also need to help U.S. firms get a foothold in one of the world's most promising emerging markets. It helps them, and it helps the U.S. economy, and it helps area reform.

Mr. Chairman, we are requesting about \$170 million in fiscal year 1996 funding for the activities in the NIS, of the U.S. agencies that directly support U.S. trade and investment—I mean OPIC, the Trade and Development Agency, and the Eximbank—in their own budgets.

This is a change from past practice when we funded them out of this budget. This year, we are asking for money for their NIS activities in their own budgets. But if demand continues to rise, and these agencies continue to perform well, we may well need additional funds that could be used for such support, and our budget request provides for them.

Third, Mr. Chairman, we need to continue our support for reform in the first wave of reforming countries that I mentioned. Reform remains a live option in the politics and in the economies of Russia, of Kyrgyzstan, of Moldova, and Kazakhstan. We need to press forward to help struggling reformers finish the job rather than pull back and leave them in a lurch.



That is what the bulk of our \$788 million request would allow us to do. It is mainly technical assistance, and the offer of the best of American know-how and expertise to reformers who are willing and able to use it. It is registering successes across 11 time zones. They are in the first instance successes on the ground. Two-thirds of FREEDOM Support Act funding has gone to entities other than central governments. And three-quarters, more than three-quarters, has gone to support programs outside national capitals.

Moreover, as reform in Russia has proceeded, we have been able to shift resources from the first to the second wave. In fiscal year 1994, two-thirds of FREEDOM Support Act funds went to Russia, because Russia was the flagship of NIS reform. If you approve this budget, two-thirds will go to non-Russian new independent states. But we need to keep the first wave of reform strong as well.

Mr. Chairman, keeping the first wave strong is important also for the second wave. That is what the mission that I led heard loud and clear from President Kuchma of the Ukraine, from President Ter-Petrosyan of Armenia, and from Chairman Shevardnadze of Georgia.

All of these countries have important relationships with Russia, and all of them believe that Russian reform is a live option, and provides a vital parameter for their own reform efforts. They believe that reform in Russia deserves continuing support from the United States, not just for the sake of a new Russia, but also for their sakes.

Finally, Mr. Chairman, these three needs are interrelated. Without continuing core technical assistance to help create new market environments in reforming countries, trade and investment cannot truly flourish. Without transitional direct support, U.S. trade and investment cannot truly engage and help these economies move to the point where assistance is no longer necessary. And unless we have the means to lead international efforts to support comprehensive reform programs in second wave countries this year, in Ukraine, Armenia, Georgia, and Belarus, those programs may well fail. Their failure would make reform in the first wave even more difficult, and even more reversible. Continued direct support of first wave reform in Russia and elsewhere remains important to their success.

This budget request provides the minimum of resources that the United States needs to meet these three challenges. We look forward to working with you and your colleagues to gain your support for it. I look forward to your questions, and thank you for your attention.

[The prepared statement of Ambassador Simons appears in the appendix.]

Chairman GILMAN. Thank you, Ambassador.  
Mr. Dine.

**STATEMENT OF HON. THOMAS A. DINE, ASSISTANT ADMINISTRATOR FOR EUROPE AND THE NEW INDEPENDENT STATES, UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT**

Mr. DINE. Thank you, Mr. Chairman, and members of this committee. I ask, too, that my prepared statement be inserted in the record.

Chairman GILMAN. Without objection.

Mr. DINE. Since I last appeared before this committee, the majority in Congress has changed. U.S. national interests, however, have not changed. Support for emerging markets and democracies in the new countries of the former Soviet Union remain strongly in the national interest of the United States.

USAID programs focused on systemic changes are shaping the content and character of these new independent states. Our goal is to help create an economic and legal environment for prosperity in Russia, the Ukraine, Armenia, Kazakhstan, and the other NIS countries. By this, I mean collectively the institutions and structures, and the patterns and habits, which make up the necessary preconditions for free enterprise, competition, and participation.

True systemic reform, while macro in its impact, is organic, and comprises a myriad of microchanges at the local level. Individual actors, voters, workers, managers, shops, and companies, and social groups alike must begin to think and act differently, indeed go through a 180-degree change.

Our strategy is to apply U.S. technical expertise where it can reinforce systemic changes, both from above and from below. That is from the grassroots. We target reformers wherever we find them. A few examples will illustrate what I mean by systemic change, as well as the substantial impact of USAID programs.

They also illustrate that reform is not a one time discrete event. Each step of progress inevitably reveals new challenges. And at times, some of the harshest new programs may appear precisely in areas where we have made important progress.

I have four examples. The first relates to free press and independent media. Recent events in Chechnya have been and continue to be deeply disturbing. It is, however, important for us to recognize that throughout this conflict that the Russian media have reported and vigorously exposed the military operation in Chechnya and the resulting human suffering.

USAID funding has linked small television studios in provincial cities into a growing network of independent producers and broadcasters, sharing programs, spreading know-how, and bringing uncensored news to their viewers. The California based PVO Inter-News is working with over 100 of these local TV stations.

Another illustration of systemic change occurring throughout Russia down to the grassroots is reform of the justice system. In 1993, the Russian legislature decided to reinstate criminal jury trials, which had been abolished by the Bolsheviks in 1917. USAID has provided technical assistance to reintroduce trial by jury, including training programs for judges, prosecutors, defense lawyers, and jurors.

As a tangible example, U.S. legal experts helped the Russians produce and publish in Russian a standardized bench book for

judges on conducting jury trials. The results are dramatic. Over 160 jury trials have been held in 9 regions of Russia. Four more regions are adding jury trials this year. Russian judges now scrutinize the state's evidence for its admissibility before juries.

Citizens are participating in an independent judicial system. Russian juries dare to stand up to once omnipotent prosecutors, and to acquit defendants against whom the state has failed to present sufficient evidence.

A third example. Today a microeconomic revolution is steadily under way in the NIS region. Private property is creating markets. Kazakhstan, the Kyrgyz Republic, Moldova, the Ukraine, and Russia are implementing USAID assisted mass voucher privatization. Russia's program started first, and the results are impressive. About 80,000 small companies and 20,000 medium and large industrial companies are in private hands.

Over 60 percent of Russia's once state-owned economy has been privatized. This represents the largest sell-off of property in world history. Forty million Russians now own shares in privatized firms, and have a personal stake in reform. In Kazakhstan, by the end of 1994, almost 4,800 small scale enterprises had been privatized through USAID designed auctions.

But mass stock ownership is only the first step toward a market economy. It raises many further issues including restructuring of privatized enterprises, enactment of commercial laws, and the need for development of well regulated capital markets.

USAID funded experts are working with NIS counterparts to develop securities regulatory agencies, as well as other legal reforms that will integrate newly privatized properties into fully functioning economies.

The new way of doing business in the NIS countries requires legal codification. Thanks to USAID funded expert assistance, modern commercial laws have been designed and enacted in both Russia and Kazakhstan.

Part I of Russia's new civil code, which contains basic commercial provisions, such as mortgages, corporations, and contracts came into effect on January 1 of this year. Part I of the Kazakhstani civil code came into effect just 2 days ago on March 1.

The next step is part II of both codes, including specific laws on banking, intellectual property, and franchising. And also, continued assistance with establishment of independent reliable court systems to enforce the new laws. These legal reforms are a boom to commerce, both the local businesses and to American investors alike.

My final example is the Help American Non-Governmental Organizations, NGO's, provided to Central Asians, Russians, and Ukrainians to create their own grassroots citizens advocacy groups on civil liberties, on clean environments, and on other political and social issues.

For instance, thanks to a USAID supported program carried out by the PVO ISAR, environmentalist groups throughout the NIS region are now linked via electronic mail networks, enabling consciousness raising and coordinated lobbying on their issues. Programs like this one are grassroots breakthroughs for participatory democracy.



The type of systemic change that is taking root in Russia, Moldova, Kazakhstan, and the Krygyz Republic now needs to extend itself over the second wave of NIS reformers, which Tom Simons has just discussed.

I was a member of the Ambassador's recent fact finding delegation, and would like to make a few observations myself about these emerging reformers. First, the Ukraine. No country better illustrates the possibilities created by reform than the Ukraine. Under President Kuchma's leadership, more reform has been achieved, and USAID has spent more in the last 3 months than in the previous 2½ years.

After delays on mass privatization, 50 million privatization certificates are currently being distributed to the citizens of the Ukraine. Images of two cargo planes carrying U.S. financed privatization certificates dominated nightly news broadcasts. Ukrainian television viewers could see American assistance turning the abstract idea of privatization into economic reality.

Bid centers where people can buy enterprise shares are opening on schedule. Recent measures to liberalize the economy and let the market work are making it possible for small businesses to sprout. The Ukraine is on the move.

Second, the Caucasuses. Armenia and Georgia have reached critical stages in their development. I believe that Armenia in particular has one of the strongest economic reform teams in the region. It is time to end these countries' dependency on humanitarian aid, and create the foundation for sustainable growth.

Both are working closely with the IMF. Tough policies have reduced their budget deficits, clipped rampant inflation, and strengthened their currencies. The hardest challenges for Armenia and Georgia lie ahead.

Accomplishing our mission will require clarity of vision and focus. I took this job recognizing its management challenges. I knew that we could not do everything. Not every program has gone as well as we would like. But I also believe that we have made real progress. I can assure you of this committee the following. Taxpayer dollars are targeted on reform and reformers. Taxpayer dollars are targeted at helping to create a private sector. Nonperforming programs are being terminated or phased out, with funds shifted to higher pay-off activities.

We have redesigned programs in key fields such as Rule of Law and small business development to produce better results. More Americans from more firms and voluntary groups throughout the country, not just in the Washington, D.C. area, are participating in this historic venture than ever before.

USAID is working shoulder to shoulder with other U.S. agencies as part of a team to achieve U.S. foreign policy objectives. And I have discussed these management reforms in greater detail in my written statement.

Mr. Chairman, the administration's request for \$788 million in fiscal year 1996 focuses on several precepts. Building grassroots momentum that will support the reform process and make it sustainable. Continuing critical next steps on structural reform, such as capital markets, tax reform, and commercial law. Ensuring that



adequate funds are available to reinforce reform in the second NIS wave.

Striving to ensure that their post-Communist transitions are irreversible. The challenge before us is at times daunting, but there can be no doubt that the consequences of inaction are intolerable.

I return to my opening point about U.S. national interests. The NIS program preserves U.S. security, promotes U.S. economic and commercial interests, and maintains for the United States its leadership role in world affairs.

I thank you, Mr. Chairman, for this opportunity, and welcome your questions.

[The prepared statement of Mr. Dine appears in the appendix.]

Chairman GILMAN. Thank you, Mr. Dine.

Secretary Smith.

**STATEMENT OF HON. HAROLD T. SMITH, JR., ASSISTANT TO THE SECRETARY OF DEFENSE FOR ATOMIC ENERGY, DEPARTMENT OF DEFENSE**

Mr. SMITH. Mr. Chairman, thank you very much for the privilege of appearing before this committee. With your permission, I would like to submit my written testimony for the record.

Chairman GILMAN. Without objection.

Mr. SMITH. And I will direct my preliminary comments to the charts which are off to your right. The program that I will discuss this morning is the Cooperative Threat Reduction Program, often referred to as the Nunn-Lugar program. But in this chamber, I want to mention very clearly that Congressman Mertha and Congressman McDade were key players in setting up this unique legislation.

This program is extremely well defined. It is bipartisan. It has moved from policy to acquisition. We have created a Program Office in the Pentagon under Major General (Retired) Roland Lajoie, who is with me today. We are indeed fortunate to have General Lajoie administering such a program. He comes with a wealth of experience. He is fluent in Russian and in French. He has founded and directed the on site inspection agency, and is seated immediately behind me. If necessary, I would be pleased to call on General Lajoie for any detailed questions you may have.

The program that I am responsible for is much simpler and considerably smaller than the responsibilities of my colleagues in the Department of State. It is aimed wholly at weapons of mass destruction. That is our goal: to assist four Republics of the former Soviet Union—Russia, Belarus, Ukraine, and Kazakhstan—in the elimination of their weapons of mass destruction.

On the first chart, sir, are the objectives of the program. As you can see, they are simple, straightforward, and mercifully are contained on one chart.

If I could have the next chart, Major Kirk. In the interest of time, sir, I will simply highlight one or two accomplishments from each of those objectives.

For example, objective 1. Assist Ukraine, Belarus, and Kazakhstan in becoming nonnuclear states. We are succeeding there. We have already withdrawn over 1,000 warheads to Russia from those three Republics. Simply put, the CTR program has as-

sisted in the denuclearization of three sovereign powers. There will be three less nuclear states in the world today, thanks to the Nunn-Lugar bill.

I should also mention in that category Project Sapphire, in which the Nunn-Lugar program successfully carried out the transfer of 600 kilograms of highly enriched uranium poorly guarded in Kazakhstan, and it now resides safely in Oak Ridge, Tennessee.

Objective 2. Assist Russia in strategic arms reductions to START I levels by 2001. We have directly assisted in the removal of over 1,000 warheads from their deployed systems. And we are doing our very best to accelerate their compliance with the treaties that are so important to us. START I, we hope START 2, and the Chemical Weapons Convention.

Objective 3. We are attempting to assist the Russians to enhance security and control of fissile material and nuclear weapons in Russia.

For example, sir, we are helping them to build storage facilities, which will be the ultimate resting ground for the nuclear weapon components from their warheads that they are dismantling. In those storage facilities, we have developed the technique called Mutual Reciprocal Inspections, which will allow us and the Russians to ensure each other that in fact those are nuclear weapons components in that storage facility.

At the same time, we are permitting the Russians to have the same access to our stored dismantled weapon components in Texas.

Objective 4. Initiate and accelerate Russian chemical weapons destruction. As we speak, we are working with the Russians side by side in Maryland to evaluate jointly their proposed technology to destroy completely their chemical weapons, of which they have 40,000 tons.

We expect to be successful in this evaluation. And if we are, I will come back to the committees of Congress and ask for monies less than \$1 billion, but not much less, to jump start the Russians in the destruction of their chemical weapons. That is to help them build the first module of a destruction facility to destroy their most insidious chemical weapons.

This chart, sir, simply shows some of the activities that we are undertaking in the strategic arms reduction. For example, our goods and our training is being used to literally saw apart strategic bombers. Or in the next picture, to saw apart the ballistic missile submarines that carry their SLBMs, their sub-launch ballistic missiles. Or in the third picture, to dismantle their silos, so that they can never again be used to store and launch missiles that could destroy cities in the United States.

Or in the fourth picture, we are actually taking those missiles and assisting them in destroying the fuel that would power them on their 30-minute flight to the United States.

The next chart, please. Mr. Chairman and members of the committee, I do not expect you to be able to read the chart to your right. But I put it up there for some very specific reasons. This is a well defined program, as I said in my opening sentence. We know what we are doing. We can sum the various modules on the horizontal, and tell you the amount of dollars that we expect to spend for each of those projects. Or we can sum them in the vertical, and

tell you how much money we need in each year to the year 2001 when we intend to bring this program to a close. This does not go on forever. It is a well defined program.

I feel that I should also point out for you that you will see blanks in the lower right corner. We know those numbers as well, but those figures are the input to negotiations with the countries that I have been discussing, and with U.S. contractors who will be bidding on those contracts. Therefore, they are not put in the public domain here.

But they are available to you, ladies and gentlemen. And we will be most happy to provide this information to you, and any other information that will be of help in your deliberations.

The final chart, please. Again, Mr. Chairman, I do not expect you to read the chart. But as you can see, it is a map of the United States. And I want to emphasize most strongly that this program provides taxpayer dollars to U.S. corporations. Let me repeat. The money goes to U.S. contractors, who then provide goods and services to the four Republics that I mentioned in helping them dismantle their weapons of mass destruction.

This program is Secretary Perry's favorite program. It is a unique opportunity in history. Never before has a great power had the right and the ability to work with its former enemy, also a great power, in dismantling and destroying the very weapons that could have and still can destroy our society. It is an opportunity not to be missed.

I am very proud and very pleased to have the responsibility to oversee this program. With that, Mr. Chairman, I would like to bring my remarks to a conclusion, and look forward to your questions.

[The prepared statement of Mr. Smith appears in the appendix.]  
Chairman GILMAN. Thank you, Mr. Secretary.

At this time, I would like to note the presence in our hearing room of Dr. Algrutis Gutis, vice chairman of the Committee on Foreign Affairs, and Chairman of the Lithuanian Parliamentary Delegation of the Council of Europe. Welcome, Dr. Gutis.

I address the panel with regard to a question on a report just released by the GAO, which states that the process of coordinating our U.S. Government agency efforts under the FREEDOM Support Act has encountered some serious problems. According to that report, there is a certain structural confusion in the management of the overall program, with the Coordinator at the State Department not always playing the vital central role that was envisioned for him under the 1992 act, with the commission set up by Vice President Gore and Russian Prime Minister Victor Chernomyrdin, often stepping in to redefine priorities in certain areas.

I would welcome the comments of the panel.

Ambassador SIMONS. Mr. Chairman, let me start as Coordinator.  
Chairman GILMAN. Ambassador Simons.

Ambassador SIMONS. We participated in the research that went into the GAO study. It covered the period 1990 to 1993. It went somewhat into 1994. It pointed out a range of problems. We do not deny the accuracy of the data. However, we do not agree with the conclusions.



I feel that the coordination mechanisms while inelegant are adequate to provide strategic focus to move the program in the direction of the priorities that the region needs, and that we have agreed with the Congress.

I exercise oversight under Deputy Secretary Strobe Talbott's leadership as head of the Policy Steering Group, the all-agency umbrella policy organization for the NIS. I worked very closely with the 15 or 16 agencies which implement this program. And we have worked hard on the problems that have been pointed out in the GAO study, and they have been substantially resolved.

Tensions continue. They will continue in a program of this size, that is attempting to do something that our country has never done before, working in an area where we have never provided assistance, a program massive in its size and in its diversity.

But I think that the coordination effort is being well done. It can always be improved. But I think simply that the GAO report's conclusions, Mr. Chairman, are out of date. But let me ask Mr. Dine to comment.

Mr. DINE. Mr. Chairman, I have a different vantage point. Because I came to this position after that report was researched. I believe it does contain important points. I agree with several of them. But the point that I want to make here is besides the critique of coordination, there was a critique of USAID. Particularly the attitude of the agency among the officers of whom I now have responsibility.

And I just want to say to this committee that under my responsibilities, and I think my track record over the years shows this, that I will not tolerate recalcitrance toward other agencies. We will work with our fellows in other agencies.

Since being in this job for the last 13 months, I have met with every official in every agency that receives assistance through the U.S. Agency for International Development. That means eight departments in about nine different agencies themselves. So I believe in bridge building, and I believe that we are seeing that difference today.

Now let me just move a little bit beyond attitude. Because as Ambassador Simons said, the report is out of date. We have established a new mechanism whereby monies transferred from USAID to other agencies have to be assumed by those agencies and those departments as responsible for those monies.

So you and your committee appropriate the monies. And in the past, we were to work out arrangements with these other departments and agencies. Well, now implementation is the recipient agency's responsibility. And this has been agreed to by the Inspector Generals of the various departments and agencies. And so therefore, I do not think that this report could be written again from that perspective.

And finally, as Ambassador Simons indicated in his opening remarks, in fiscal year 1996, we are seeking \$132 million that will go directly to OPIC, to TDA, to USAID, to Eximbank. So there will not be the pass through, if you will, through the U.S. Agency for International Development. And I think that will make life more efficient, and we can get on with our work.

So anything that took place in the past that has been recorded in this program, we are taking seriously, as recorded in the GAO report. But I think that you can easily say, Mr. Chairman, that that was yesterday.

Chairman GILMAN. Well, you indicated that this report is outdated, yet it is a February 1995 report. They say that it was inclusive of their work from July 1993 to December 1994, and that they did brief your people in the latter part of last year about the findings. So I question whether it truly is out of date or not.

Then one paragraph that disturbs me is, "According to an official at the coordinator's office, disputes between USAID and other agencies require the coordinator's office to spend an excessive amount of time dealing with high level political battles over small amounts of money instead of spending time developing program goals and objectives." I would welcome your comments.

Ambassador SIMONS. Mr. Chairman, the bulk of the data and the bulk of the research for that report was collected in late 1993 and into early 1994. For instance, the data on dispute over agricultural technical assistance are recorded from April 1994.

Chairman GILMAN. Well, they state, Mr. Ambassador, "We conducted our work from July 1993 to December 1994 in accordance with generally accepted government auditing standards."

Ambassador SIMONS. I understand, but I am simply saying that the work focused on and the bulk of the work was done in the earlier period. Now during that period, as the technical assistance program was starting up, a great deal of time, I bear the scars, and energy, was spent on fairly small issues.

Mr. Chairman, that is no longer the case. The program priorities are in place, and the programs are rolling out. The priorities are agreed across agencies in accordance with strategies put together by my office, and are implemented in accordance with that strategy. You continue to have friction. Because when you get into allocation of money, you are going to have different priorities, but they no longer take the kind of time and energy described in that report.

Chairman GILMAN. Well, I am pleased to hear that some progress is being made. It is just an important program, that we do not want to bog down in these kinds of intramural debates.

Mr. HAMILTON. Mr. Chairman.

Chairman GILMAN. I yield to our ranking minority member, Mr. Hamilton.

Mr. HAMILTON. I just want to pick up where the chairman has begun. This program has been slow to take off, because it has been run by a committee. And we have got a good example right in front of us today. The Defense Department, the State Department, and AID. If this program is as important to the American national interest as I think it is, you have to have a coordinator with the authority and the influence to supervise, control, and coordinate all government activities.

Now I mean no disrespect to any one of you. You are working within the constraints of the system, and I fully appreciate that. I think that you have done excellent work, given your responsibilities and authority.

The coordinator of this program should be located at the White House, not at the State Department, not at another agency. And

he or she should be invested with the full formal stature that comes from that location, reporting directly to the President.

And I think that the reason that the program has been so slow to get going has been because the coordinator has not had sufficient authority. I have talked to a lot of people in the administration about that. I know this job has been much discussed. And I want to emphasize that I think that each of you have fulfilled your responsibilities quite well, extraordinarily well, given the authorities that you have.

Let me go to the broader question here. We have had a lot of developments in Russia that are not good. There is this horrible war in Chechnya, and massive human rights violations by the military against civilians, and it is still going on. A war conducted by President Yeltsin.

There is more authority concentrated in the Federal Counter-Intelligence Agency. Every day in the paper you read about corruption and crime. And yesterday, the TV commentator shot and killed. We read about how authority is concentrated more and more in a very few people who are not reformers, and who are not democrats.

We have got great concerns about what Russia is doing with regard to supplying nuclear reactors to Iran. We hear about Russian pressure on its neighbors, and hostility to NATO enlargement. And we have deep questions in our minds about the commitment of the government to reform, or their capability to bring about that reform.

Now why, is it then in the national interest of the United States to support this government? You understand where I come from. I voted for aid to Russia. I am just laying out for you what I am going to hear again, and again, and again on the floor of the House and in committee, as this moves forward. It is a lot tougher to vote for today than it was a year ago.

Why is it in the American national interest to assist Russia?

Ambassador SIMONS. Congressman, we believe that in assisting Russian reform that we are assisting ourselves. Because Russia's transformation into a different place out of communism toward government from the bottom rather than from the top, toward an economy where ultimately individuals make the economic decisions rather than the state—is in our interest, as we have stated. It is a very messy situation. We share very many of the concerns that you and other members have. You have ticked off a number of them: crime and corruption, the nuclear reactor sale to Iran.

We, too, have questions about the commitment and the capability of this government to move forward. But we feel that it is an obligation to support reform and reformers where we find them. The government, Congressman, is still full of reformers. Reformers are thick upon the ground. I would say that they are multiplying in the society and in the economy. And as long as they are there, and as long as we can find them and find active partners for the support of reform, we feel that it is in our national interest, and it is an obligation for us, to do so.

Now we have tried to address the kinds of concerns that you have talked about. We also feel that it is in our interest to help



dismantle and eliminate nuclear weapons in a country that still possesses some 25,000 of them.

Mr. HAMILTON. You would strongly oppose any legislative proposal to condition aid to Russia on action that they might take with regard to Iran, or other steps?

Ambassador SIMONS. Congressman, the FREEDOM Support Act is full of conditions on the provision of aid. The fulfillment of arms control commitments.

Mr. HAMILTON. They are not really conditions, Mr. Simons. You have to take them into account.

Ambassador SIMONS. OK. The whole back of the Annual Report, however, shows how we are taking them into account.

Mr. HAMILTON. What I am talking about is conditionality. I am talking about hard conditionality. We shall not give aid to Russia unless they stop supplying materials, resources, and assets for the nuclear reactor.

Ambassador SIMONS. We would oppose that, Mr. Chairman, because we think that it is cutting off our nose to spite our face. In other words, we should pursue improvements. We are opposed to the reactor transfer. But we do not believe that we should stop support for reform on that account.

Mr. HAMILTON. I appreciate the chairman letting me ask one other question.

You are not requesting any kind of authority in your testimony this morning for a cash transfer, is that correct?

Ambassador SIMONS. That is correct.

Mr. HAMILTON. And of course, the FREEDOM Support Act does not provide for that kind of financing. You understand that. We did it one time for the Ukraine. I did not like that, but I agreed to let it go through.

But you are not here testifying for cash transfers of any kind?

Ambassador SIMONS. That is correct. We will keep by the terms of the Secretary's commitment to you as Chairman. But Congressman, we feel that it is very important to support these comprehensive reform programs in the second wave of reforming states. We are seeking to put together U.S. contributions, which will permit us to lead the international community.

At this point, we do not intend or wish to give cash grant transfers. If that situation changes, we will come up to see you about it.

Mr. SMITH of New Jersey. Mr. Chairman, may I make a brief response to Mr. Hamilton's question?

Chairman GILMAN. Yes, please.

Mr. SMITH of New Jersey. Sir, I think you speak for all of us regarding the concern about events in Russia. I would simply say that I conclude from these events that that is all the more reason to accelerate our efforts to disarm and dismantle our former enemies.

Chairman GILMAN. The distinguished subcommittee chairman, Mr. Bereuter.

Mr. BEREUTER. Thank you, Mr. Chairman.

Gentlemen, thank you very much for your testimony. I would first say that I am in total agreement with what Mr. Hamilton has said about the proper placement of the direction of our assistance



programs to the NIS. It should be in the White House. Despite the best efforts of the agencies involved, it is not going to work that well.

Administrator Dine, I happen to think that dollar for dollar that we get our best efforts out of volunteer programs, whether it is the farmer-to-farmer program, in which I have a special interest, or the businessman's assistance program.

Volunteer programs require a very small amount of funds, as compared to the way that AID spends a lot of its money in Russia or the NIS. A relatively small number of consulting contractors get far more funds than these programs.

Now I understand that in June of this year, unless action is taken by your agency, VOCA, which has run most of the farmer to farmer programs, is going to have to shut down operations in the former Soviet Union. So I am hoping that a favorable decision can be made on that shortly. That is just a statement. I would appreciate it, if you would look into it.

Ambassador Simons, I noticed from your oral comments and from your written testimony comments about the Eximbank, OPIC, and the Trade and Development Agency, and how these program fundings would under the budget proposal be shifted to those programs. At least you say later on that OPIC and TDA would be shifted. You do not mention Eximbank the second time.

I am concerned about that. That may be a good decision. But my concern is in two parts. One, the Eximbank budget, and the TDA budget, and the OPIC budgets are not being appropriately upgraded. Indeed, they are being degraded too much in the budget proposals. That means that there are going to be less funds for the rest of the world in those programs.

I am also concerned because I do not think that our budget and our appropriations committees fully understand that you are shifting back the responsibilities for funding under these programs to the agency's program itself. Therefore, when they are going to cut those programs substantially, as they are, the cuts for the rest of the world are even going to be more dramatic. So I call that to the attention of my colleagues, and also to you, as administrators of our program in the NIS.

Ambassador Simons, it is reported that the Eximbank has a total of \$1.3 billion in authorization for business deals involving Russia alone. But at least from unofficial reports, very little of that expenditure has gone forward.

Would you comment on that allegation, please?

Ambassador SIMONS. Mr. Chairman, thank you for bringing that funding problem to my attention. And I will certainly pass it along to my colleagues, pointing out the potential effect of direct appropriation to those agencies for their NIS activities.

We think that it probably strengthens their NIS activities. But I would certainly draw the attention of others to the potential effect on other elements of their program.

Congressman, I think that the charge with regard to Eximbank is simply inaccurate. As far as this program, the FREEDOM Support Act funding, is concerned, in fiscal year 1994 Eximbank received a direct appropriation of \$300 million for subsidy for NIS ac-

tivities in 1994 and 1995, and has not received anything from this program since then.

All of that was obligated by the end of 1994, and they have approved financing of \$229 million in fiscal year 1994, and they are planning another \$86 million in fiscal year 1995.

They have set up now this oil and gas facility, which is an escrow account dealing with Russia, whereby Russian entities put into escrow as a guarantee of repayment the proceeds of sales for Eximbank supported programs.

In fiscal year 1994, Eximbank approved \$1.1 billion in six OFGA transactions. And in the first quarter of 1995, they are doing \$351 million in five more deals. Now I do not know if that is an adequate response to your question. Those are the data that we have.

In other words, you appropriated \$300 million in fiscal year 1994, which is being spent out, and which is producing very considerable U.S. trade deals in the area.

Mr. BEREUTER. Just one follow-up question, because my time has expired.

Do you believe that the \$1.3 billion in authorizations is accurate or appropriately accurate?

Ambassador SIMONS. I simply do not know, Congressman.

Mr. BEREUTER. I would appreciate it, if you would check that.

Ambassador SIMONS. Eximbank informs me that their actual exposure for fiscal year 1994 is approximately \$1.3 billion.

Mr. BEREUTER. Thank you, Mr. Chairman.

Chairman GILMAN. Mr. Johnston.

Mr. JOHNSTON. Thank you, Mr. Chairman.

I will kind of follow up and quote what the ranking member, Mr. Hamilton said, that it is a lot tougher to vote for foreign assistance today than it was last year. Particularly when Congress is playing musical chairs with this money. Taking out so much out of the funds for Russia to build housing. It gets over to the Senate, and the Senator McConnell says, "Oh, I can find those funds. We will take it out of the development fund for Africa."

Ambassador SIMONS. What you have left is Tajikistan, which is a civil war zone, and Uzbekistan and Turkmenistan; in other words, three Central Asian countries, one of which, Uzbekistan, is showing encouraging signs of moving toward market reform, and less encouraging signs toward democratic reform.

So we are encouraging them to move forward with these programs. I think that life itself, as the Soviets used to say—they are becoming surrounded by reforming countries—is encouraging them in this direction. If they move in that direction, we would like to provide modest assistance.

But the key to us is that the reform that they adopt be comprehensive and deep ranging. And generally, that means a program with the IMF and the IBRD.

Mr. JOHNSTON. Azerbaijan through is still excluded?

Ambassador SIMONS. I am sorry, I left Azerbaijan out.

Mr. JOHNSTON. Azerbaijan is omitted because of human rights violations?

Ambassador SIMONS. No, I am sorry. It is simply an omission on my part. We would also like Azerbaijan to move forward with com-

prehensive reform. So the third wave has four countries. The wave that has not yet started to gather has four countries in it.

Mr. JOHNSTON. Mr. Dine, in describing Russia, it almost sounded like Switzerland for awhile there.

Mr. DINE. The French speaking part or the German speaking part?

Mr. JOHNSTON. Well, all four. There has been a lot of criticism though in the sense that Russia has not progressed on privatization and an independent judiciary. I know that you mentioned the jury and things like that, but really not a sufficient amount of jurists there, and not a sufficient commercial code.

Mr. Hamilton mentioned crime. And then last and certainly not least is the currency there and the run away inflation of the ruble.

Could you comment on that?

Mr. DINE. Yes, sir. First of all, think about what is being changed. It is a country that saw the state as the one and only arbitrator of justice. Secondly, the trial by jury example that I used in my opening statement is an important one, because it was part of Czarist Russia's judicial matters. You may remember in "Brothers Karamazov", "the trial" at the end of the book.

Mr. JOHNSTON. You are showing off now, Mr. Dine.

Mr. DINE. Well, I am trying to make a point that they had a different system. Then in 1917, it all changed. And that change is one that we want to change. Because it is the absolute opposite of what we believe a civil society should be about. It is not easy. And in fact, in the economic reform area, you can provide quantification. You can show the number of shops, and the number of people on boards. But in the political democratic governance area, it is very difficult to show change.

And that gives me an opportunity to pick up on something that Mr. Bereuter said. We have got to do more at the grassroots, in the judicial area, and in the small business area, and in the local governance area. That means helping to create more NGO's. Whatever their advocacy, they are part now of civil society. As a matter of fact, you can call it civil economics, if you will. Because it leads to this private sector that we all want to build.

We all have got to do more in finding ways to help them find credit. It is missing everywhere. And in doing so, I think we will help to build the kind of society that the Russians themselves want.

Mr. JOHNSTON. Excuse me, my time is up, but could you briefly address the crime issue?

Mr. DINE. Let me give it to Ambassador Simons. Because he spends a lot of time on that.

Mr. JOHNSTON. Quickly, because my time is up.

Ambassador SIMONS. Crime is a serious problem. It is the number one problem for Russians. Public opinion polls confirm that. And it is the number one domestic priority for the government. President Yeltsin confirmed that in his most recent speech. It is a major obstacle to business engagement. It is a major obstacle to reform.

Only societies themselves can solve their own problems. I mean the outside world will not solve that problem for Russia, or the



other new independent states. But we should help, and we mean to help, and we are helping, in three ways.

First is simply to help build the market environment: the courts, the commercial codes, the capital markets, the regular laws, regulations, and institutions of a market environment, in the absence of which crime flourishes. In other words, it is the absence of that structure that brings out crime.

The second way is support for rule of law specifically. We have major programs. Mr. Dine mentioned one, the jury trials. But we are helping generally to put together an independent judiciary and legislation to be enforced.

Third, direct law enforcement. We have put together a program of \$15 million, which is now rolling out in Russia, and we just had a delegation in the Ukraine and Belarus in order to help with direct training of law enforcement agencies there. Participating in that are the FBI, the Department of Justice, Customs, and IRS. So we are doing our part, and we intend to continue to do our part.

Mr. JOHNSTON. Thank you.

Chairman GILMAN. Our distinguished subcommittee chairman, Mr. Smith.

Mr. SMITH of New Jersey. Thank you very much, Mr. Chairman.

I would like to ask a series of questions, and also submit some questions on arms control to Dr. Smith, because our time is very brief.

Mr. Dine, last month at a briefing of the Helsinki Commission, which I chair, you indicated that more than 70 percent of state enterprises had been transferred into private hands. Last year, the Russian Academy of Sciences, however, estimated that as much as 55 percent of financial capital and some 80 percent of privatization shares and vouchers are controlled by the Russian Mafia.

In view of this data, the question now becomes not what percentage of former Soviet state industry has been privatized, but more importantly who owns it.

Keeping in mind the chilling statistics from the Russian Academy of Sciences, I wonder if you could tell us do you believe the U.S. supported Russian privatization program has been a success?

And I also would like to ask you, again time is so short, if you could touch on the issue of granting assistance to human rights organizations and humanitarian assistance organizations in the former Soviet Union. There has been some criticism that the larger organizations that know how to apply for grants are more apt to get those rather than the smaller.

In about a half hour, I will be meeting with the Georgian Ambassador, P.M. Jaborizii, and we will be discussing a number of things, including the refugee problems, and we all know that they have got about 250,000 refugees. There is also the problem of crime and Mafia control in that country.

But I will also be giving him a letter as Chairman of the Commission, which is not unlike one that my former chairman, Steny Hoyer, and then Mr. DeConcini, had given to the Georgian Government, and never got a response, with regard to the 19 defendants who have now been convicted and are awaiting sentencing for various crimes associated with the June 1992 attempted assassination.

The concern that I have and that many of us have is that the entire lack of due process that permeated that trial, and the extensive use of torture which has been acknowledged by Shevardnadze himself, raise serious questions about democratization, the rule of law, and due process rights in Georgia.

And since political reform and democratization are certainly important issues with regard to U.S. aid, is the administration raising these issues? These men very shortly will be sentenced. We have yet to get a response back. And again, the use of torture, the use of hideous tortures against these individuals, is a disgrace. If you could touch on that issue as well.

And finally, on the issue of the provision of aid to Armenia. As I think you know, I have sponsored, along with a bipartisan group of lawmakers here, the Humanitarian Corridors Act. I know that the administration does not like it. It feels that it may upset our relationship with Turkey, and I understand those considerations. I do not dismiss them. I think that they are important considerations.

But when it is U.S. aid that we are trying to transit and get through to suffering people in Armenia, and Turkey throws up a blockade, it seems to me that that is not acting in a humanitarian mode on their part. And this is our aid. We want to get it to victims. No matter how they feel about Azerbaijan, the Armenian situation, and their friendship with Azerbaijan, that ought to be let aside when foods and medicines are on their way to suffering victims. If you could touch on some of those.

Mr. DINE. Well, let me try to hit all of your points in some fashion. Let me go backwards. On Armenia, we are doing everything that we possibly can to get as much food and fuel to Georgia and Armenia, to allow those two societies which lack so much energy basically to go ahead with feeding their populations and keeping them warm during these Caucasus winters.

And as Ambassador Simons just said, we were in Georgia and Armenia recently in February, and these matters were touched upon, and will continue to be. The state minister for agriculture for human welfare efforts was in town this week, and we spent a lot of time together.

There is no doubt that if we could ship supplies to Armenia through Turkey, that it would cost the American taxpayers less. I believe that very strongly. However, there are different railroad gauges, and there are different ways of doing things.

But the bigger point is that the Armenia that existed in a normal kind of environment and without war with Azerbaijan, and without the blockade from Turkey, would probably be in Ambassador Simon's first wave. A highly entrepreneurial people with a lot of human capability and talents that I am quite bullish on, to tell you the truth. But it is a question of dealing with the realities surrounding there.

So we are going to continue to work with the Turks, and we are going to continue to work with the Armenians and the Georgians on all of these matters.

Mr. SMITH of New Jersey. Perhaps for the record, Mr. Dine, you could suspend briefly. It would be very helpful for the committee to know how much aid does not get there, whether it be diverted

because of additional costs in transportation, or simply for some other reason. How many more people have been victimized because of the blockade? That would be very helpful.

Mr. DINE. We will get back to you with something.

Mr. SMITH of New Jersey. I appreciate that.

Mr. DINE. I do not know how definitive we can be, but we will try.

So anyway, I want to put aside the Humanitarian Corridors bill for the time being. The point is that Armenia is important. And I think that the previous administration and this administration have gone all out. I, myself, have spent an inordinate amount of time on this particular issue, and I know that so has Tom Simons.

Secondly, refugees in Georgia and also the crime and corruption there, I will let Ambassador Simons comment on that. But I just wanted to say for the record that behind closed doors that you would have been very proud of this coordinator and this person in dealing with these very sensitive issues on how we expect the American taxpayer's money to be utilized in Georgia, and what we expect in return.

In terms of the trials and all of the other things, I think that you just made my point that I tried to make somewhat briefly to Mr. Johnston, that this is a society that is continuing the Soviet tradition that denied crime, that denied the use of evidence, that presumed that everybody was guilty until proven innocent if they ever were, and that showed that law enforcement was really ruled by power rather than fairness, justice, and by your peers.

And we have got to invoke and help them use evidence and due process, and the kinds of activities that we are used to.

On the Mafia, I do not believe that there is such a thing as the organized Mafia. There are certainly a lot of criminals in governments throughout this area. Because you remember that the Communist Party was criminal and was corrupt. Those officials were not in the moralist tradition, if you will. And so the change that is under way is part of this whole process of breaking down the past, and pursuing efforts 180-degrees differently. And that is what restructuring is all about.

Ambassador SIMONS. Mr. Chairman, if you would permit me just a few comments on Congressman Smith's question.

Chairman GILMAN. Yes, by all means.

Ambassador SIMONS. Armenia and Georgia are very high priority countries to us. Under this program and other programs, we have put close to half a billion dollars into each country. We will look at the effects of the blockade on that. I think that the effects of the blockade have not been in limiting what could come in, but in raising its cost, because you have had to use other means to get stuff in. But the stuff has gone in.

Moreover, we use our assistance to leverage the European Union. It is because we have worked very closely with the European Union, that they are now major and successful partners in this effort to provide food, fuel, and medicine for both Armenia and for Georgia.

That continues to be a very high priority. Fiscal year 1995 funding, I have it here, is more than \$100 million for each country from all programs.



With regard to your Corridors proposal, as you pointed out, the administration does not like it. And in fact, the administration opposes it. We would like to work with you perhaps to see if we can get language where we would not oppose it. We think that it is now too rigid.

We will continue to press Turkey to end these blockades, just as we continue to raise human rights issues with all three countries or four. Azerbaijan is no bargain either.

But it is also true that the Turks have told us that they want to reopen the border and normalize relations with Armenia, but cannot act counter to overwhelming public opinion. Of course, one hides behind that at times. But I know that they are in touch with Armenia. In other words, Armenia and Turkey are talking to each other.

President Ter-Petrosyan told us that. There are proposals for moving. And the Armenians, I think, are working on a possibility of moving Turkish assistance to Azerbaijan through Armenia. So I think that there is a lot going on.

And, of course, the key would be the successful peaceful solution of the Nagorno-Karabakh problem for everyone. Thank you.

Chairman GILMAN. Mr. Menendez.

Mr. MENENDEZ. Thank you, Mr. Chairman.

Ambassador, could you, or for that matter any member of the panel tell me if you are familiar with a facility in Loura, Cuba that the Russian Government rents?

Ambassador SIMONS. It is Lourdes signal intelligence facility.

Mr. MENENDEZ. Could you tell the committee what it is that that facility does?

Ambassador SIMONS. Let me ask Mr. Herbst to respond to that.

Mr. HERBST. It is a signal facility, which means that it picks up signal intelligence. And it is operated and manner by Russian technicians, and Russian pays Cuba for the use of the facility.

Mr. MENENDEZ. So in essence, it is a spy station?

Mr. HERBST. That is one way to term it.

Mr. MENENDEZ. And could you tell the committee how much the Russian Government pays the Cuban Government for the use of that facility?

Mr. HERBST. I do not have the exact figures, but it is in the \$100-plus million range.

Mr. MENENDEZ. I would offer to you that it is \$200 million.

Mrs. MEYERS. Mr. Chairman, I could not hear the responses that the gentleman is making for some reason.

Mr. HERBST. I am sorry, you cannot hear me?

Mrs. MEYERS. If you could speak a little more directly into the mike. I had trouble hearing part of your response.

Mr. HERBST. It is at last \$100-plus million, but I can get the exact figure.

[The information follows:]

We are not certain how much Russia pays Cuba for the use of the facility. In November 1994, following a visit to Cuba, Russian Chief of the General Staff Kolesnikov announced that Russia would provide Cuba with \$200 million in goods for Lourdes rent in 1995.

Mr. MENENDEZ. I would like the exact figure for purposes of the record. But I would offer to you that it is about \$200 million, if you



check with the wide range of information that is available to the U.S. Government.

Now as someone who supported Russian aid, I have had a very tough time explaining it back at home.

Can you tell us, especially in light of on page 204 of your 1994 annual report, where you say that, "We do not have evidence that Russian is providing trade subsidies or other assistance to Cuba," that \$200 million, over 25 percent of what we provide in assistance to Russia, is an amount that we can explain to the American people for the purposes of spying on the United States, is \$200 million not a subsidy for such a facility?

Mr. HERBST. Our conclusion, as we stated in the report, is that Russia is not providing a subsidy for Cuba. The Russians use this as part of their national technical means system for among other things purposes of verifying arms control agreements that we have with them.

Mr. MENENDEZ. \$200 million. You are telling me that \$200 million for this facility in Cuba you do not consider a subsidy?

Mr. HERBST. That is correct, yes.

Mr. MENENDEZ. You are saying it is worth \$200 million; that if we had a need for it, the United States would pay \$200 million for this facility?

Mr. HERBST. We will get back to you on that.

[The information follows:]

We have contacted the intelligence community regarding this question. They informed us that they would prefer to discuss this issue with Congress via private, classified briefings. They also said that intelligence community briefings that would include this information have already been scheduled and that Congressman Menendez would be among those briefed.

Ambassador SIMONS. I suspect that we have paid more for comparable facilities for the same purpose.

Mr. MENENDEZ. Well, let me just tell you that that is great, but we did not get any money from the Russians to pay for the facility. And the fact of the matter is that if you have 25 percent or more of what it is that we give to Russia, I find it very hard to go back to my constituents as someone who has supported this, and tell them that well, we give \$788 million or so to the Russians, it is in our interest, but by the way I cannot explain to you other than that it is of value, I am told, to go to spend \$200 million to spy on the United States. It just simply does not make sense.

Ambassador SIMONS. Congressman, of course, I cannot give you the answer to give to your constituents. But let me suggest an answer. These monies are not comparable. The monies that we give for assistance to Russia goes in the form of American know-how and expertise to help reformers reform. It does not go into Russian pockets. Therefore, it is not fungible with the \$200 million that Russia pays. Russia could not get this know-how and expertise in any other way.

Mr. MENENDEZ. Really, Ambassador, it gives them the wherewithal to have other things done for them by the U.S. Government that they do not themselves have to spend money on that they might be spending money on otherwise.

Ambassador SIMONS. Congressman, I would just contest that. I do not think that they can get this any other way than through this program.

Mr. MENENDEZ. I would really like from the Department a statement that in fact the \$200 million is not a subsidy for this facility, and an explanation thereof of why it is not a subsidy.

Chairman GILMAN. Mrs. Meyers.

Mrs. MEYERS. Mr. Dine, the chairman of the Ukraine Rata saw me this week, and expressed concerned that the Ukraine has not been able to get credit from the Eximbank for needed herbicides and pesticides for the spring planting.

What does Ukraine need to do in order to be able to obtain this credit?

Mr. DINE. Well, I will be able to give you a clear answer, but I would like the coordinator to answer that, please.

Ambassador SIMONS. Well, if you can be so clear, why do you not answer it.

Mr. DINE. The Ukraine, Mrs. Meyers, has a F credit rating. And we have made that point very clear to them. Ambassador Simons did in his delegation interactions in Kiev. The Ukrainians know it. We are working very hard to work on that situation. But until that economy improves, it is going to be very difficult for there to be full trade to take place with all of the credits that are needed. And we are working with the Ukrainians on that. And by the way, the Ukrainians did pay what they owed the Export-Import Bank recently.

Ambassador SIMONS. Congresswoman, the key to EXIM's opening is a change in that credit rating. The change in the credit rating will follow an objective assessment, as objective as we can make it, about the real possibility of lending and getting your money back in an economy like that. The key to it is proceeding with this bold reform program, which the Ukraine has now adopted. We believe that they may sign a letter of intent for a standby arrangement with the International Monetary Fund very soon, which will move the reform process forward, and halt the decline and get growth going, at which point Eximbank could come in.

However, we are working on creative ways to use limited funding from the FREEDOM Support Act to put together a trade credit facility in which Eximbank would participate, even though the credit rating remains low. And if we succeed in putting together such a facility, which would allow American companies to trade into the Ukraine with some support from the U.S. Government, we will be up to talk to you about it. We would like to do that very soon.

Mr. DINE. In fact, I was talking to some of your constituents this morning when I met with the Citizens Network for Foreign Affairs, and a whole host of agribusinesses. And a couple were from Kansas. And we discussed this innovative mechanism that Tom Simons just mentioned. So we hope to really get beyond where we are now.

And I believe very strongly that as long as President Kuchma's direction is followed, that over the next 12 months that you are going to see the Ukraine really on the move itself.

Mrs. MEYERS. I thank you for that response. I just did not want to see them in some kind of a Catch-22 situation where they needed something for the planting, which would stimulate their econ-

omy, but they could not get it because we want them to improve their economy. So I appreciate your response. And I hope that you will stay in touch with me.

One more very quick question, Mr. Chairman, because I know that we have to go vote.

In the report, it says that \$1.72 million has been appropriated, and \$470 million obligated, and \$100 million spent for the cooperative threat reduction program.

How much of the five objectives of the program have actually been started? That means that about one-third of the money appropriated had been obligated, and less than 10 percent has actually been spent. So how much have you been able to accomplish?

Mr. DINE. Mrs. Meyers, I would like to use a chart to show our rate of obligations. That is probably the first part.

Chairman GILMAN. If I might just intervene. We have about 5 minutes to get to the floor, so if you would be brief.

Mr. DINE. We will forget the charts in accordance with the chairman's suggestion. The obligation rate at present is about \$800 million a year. That is twice as fast as the funding rate has been in the past. So the team in acquisition under General Lajoie is moving out with alacrity.

Now why the slow start I think is the underlying question you have. And there, I would like Major Kirk put up another chart. But I will again be brief, Mr. Chairman.

These are international agreements, which my colleagues in policy had to negotiate with the Russians, Belarusians, et cetera. Once we have the umbrella agreement, then we need specific implementing agreements. These take more negotiation. Once we have those, we then have to develop contracts which are suitable for contracting with American industry.

You might ask are we providing too much protection with our certifications, notifications, umbrella agreements, implementing agreements, and contract specifications. I do not want to answer that question. That really is for the Congress.

As a taxpayer, I am pleased that we have this type of protection. But as the implementer, it is very, very difficult to make this cumbersome machine move with anything that I recognize in business. However, as Major Kirk had up on his previous chart, we are obligating at quite an impressive rate at present.

Mrs. MEYERS. Thank you. And I am sorry that we have to run. I appreciate it.

Chairman GILMAN. I want to thank our panelists. And the committee stands adjourned.

[Whereupon, at 11:45 a.m., the committee was adjourned.]

## APPENDIX

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Prepared Statement of  
Ambassador Thomas W. Simons, Jr.  
Coordinator of U.S. Assistance to the New Independent States  
for the  
House International Relations Committee

March 3, 1995

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Good morning, Mr. Chairman. It is a pleasure to be with you and your colleagues to urge your support for the Administration's FY 1996 budget request for assistance to the New Independent States of the former Soviet Union. I and my successor look forward to working with you in the weeks and months ahead to make sure this program continues to have the strategic impact the Administration and Congress have intended for it since it began.

Mr. Chairman, I understand you will shortly hold hearings on the Administration's overall policy toward the New Independent States, extending beyond assistance. Let me therefore simply say that assistance is one component of our larger policy approach to this critical part of the world. Under Soviet rule it was for two generations the greatest threat in our history to our ideals, our interests, and our existence. The dissolution of the Soviet Union in late 1991 gave us the historic opportunity to work with twelve new nations struggling to shed the legacy of Communism and enter the modern international community as free and equal partners defining their own destinies and at peace with themselves, with their neighbors, and with the wider world.

If all or most of them succeed, U.S. interests will be well served. We will be more secure. We will have larger markets and larger supplies for our economy, and more and better jobs for American workers. We will have more reliable partners as we seek to lead the international community in confronting and overcoming the common challenges of today's and tomorrow's world: arms control and non-proliferation; maintaining an open trading system; controlling international crime, terrorism, and narcotics trafficking; building a habitable planet. Conversely, if these transitions fail we will face wholly unwelcome threats to our security and our interests, and wholly unwelcome new calls on our resources -- economic, military, and moral -- to meet them. The stakes are therefore high, and strategic in character.



NIS assistance is only part of a larger national endeavor to help these new nations join us in a better 21st Century. But it is also a vital part of that endeavor. Mr. Chairman, this is defense by other means at a fraction of the cost of what we have spent for defense in the past and would have to spend in the future if the NIS transitions fail, and with major potential benefit for the U.S. economy and our capacity for international leadership as well.

#### The Strategy and the Program

If the NIS are to make the transition out of Communism and into a better world for us all, painful reforms are required. They must leave behind the practices and the institutions of decades of despotic government, in which the party and the state decided and ran everything from the top down. They must choose, introduce, and learn democratic governance, government from the bottom up. They must leave behind economies owned and run on command by the state and party. They must choose, introduce, and learn market-oriented economic management, so that economic decisions are ultimately made by free individuals. But after long decades of Communist rule the social, political, and economic bases for movement toward democracy and the market remain fragmentary and fragile. We have no better vehicle for helping and encouraging reformers to make the difficult choices than our NIS assistance program.

Mr. Chairman, two Administrations and two Congresses have understood the strategic importance of democratic and market reform in the NIS transitions, and thus the strategic importance of this program. The Administration and the Congress have therefore formed a partnership of our own and worked together over three years, with overwhelming bipartisan support, to establish, expand, and focus a program that equips the United States to seize a historic opportunity, and shape it to meet changing needs on the ground.

The Administration understands that the NIS countries are special and require a special kind of program. They are not less developed or underdeveloped countries in any traditional sense. Most of them have rich human and physical resources and substantial infrastructure. But their common legacy of Communism has left them misdeveloped in terms of the new goals of democratic governance and market-based economic management they are now choosing for themselves. The task of assistance is to help them reorient resources they already have toward those new goals, and make those goals integral parts of their political and economic structures. The whole transition will last decades, but our analysis and our experience so far both suggest that this essential reorientation can be effected within years. If not, it will not be for lack of resources at home or from abroad.

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We have therefore put together a program that hit the ground running, that is building and peaking now, and that will phase down rapidly. It began with a humanitarian phase, huge deliveries of food, fuel, and medical supplies to cushion the initial social shock of transition, in 1992-1993. It moved into its technical assistance phase beginning in 1994. And we intend to bring most of it to an end quickly. The FY 1998 budget request will be the last for technical assistance for Russia, the country where reform began earliest and has proceeded farthest. Technical assistance for other NIS should be ending by the turn of the century. At that point private sector engagement should be positioned to replace assistance as the basis for the normal economic relations between equal partners that we seek. This is therefore a high impact program for the decade of the 1990's.

But for it to fulfill the strategic task that two Administrations and two Congresses set for it, the NIS assistance program must be funded at minimum levels that permit it to fulfill its core function of promoting democratic and market reform both in the countries that made the hard choices for reform in 1992-1994 and in the second wave of NIS that are making those choices now, this year. If we are effectively to promote modern partnerships between the U.S. and reforming NIS, we must maintain the three-year partnership in support of this program between the Administration and the Congress.

This is a tight program, there is no fat left, and rescissions cut into muscle. The FY 1996 request for \$788 million that is before you would provide the minimum funding we believe is required to meet three needs that are critical if we are to stand by NIS reformers and do our part to help take the reform process beyond the point of no return. Two of these needs are new, and result from the progress of reform itself; one is continuing; all three are interrelated.

Let me start with the new needs.

#### The Second-Wave

In the second week of February I led a mission of senior U.S. officials from OPIC, TDA, USAID, USDA, Treasury and the State Department to Ukraine, Belarus, Georgia, and Armenia. Together these countries constitute the leading edge of a "second wave" of NIS reform. It began in late 1994, nearly three years after the dissolution of the Soviet Union. It is boldest in Ukraine and Armenia, but it is also gathering momentum in Georgia, Belarus, and perhaps even Uzbekistan.

There is no blueprint for reform, and the needs of individual countries vary. As ceasefires continue to hold, Armenia and Georgia are only now in a position to contemplate and tackle the comprehensive reform programs they will need to buoy them over the economic consequences of civil conflict and escape dependency on humanitarian aid. In Ukraine, Belarus and possibly elsewhere, after two years of delay and decay political consensus is formed or forming around the proposition that only comprehensive economic reform can save their futures as sovereign, independent states. From these different directions, however, reformers in all these "second wave" countries are coming to agreement with the IMF and the IBRD on tough reform programs that are tailored to their individual situations and possibilities, but operate within strict IMF guidelines.

The IMF and IBRD will provide significant financial assistance to these country programs, but they will also need help from bilateral donors. Last fall the U.S. led the international community effort needed to permit Ukraine to access \$371 million from the IMF's Systemic Transformation Facility (STF) and move forward with a bold initial reform program. Now the international community is called on to support at least four programs in 1995, including an IMF Stand-by Arrangement (SBA) for Ukraine that is in the final stages of negotiation. Once again the U.S. wishes to lead -- and should lead -- this larger effort. To lead, we must contribute. Given our tight resource situation and attacks on this program, which is the provider of last resort for U.S. contributions, an up-to-date, on-the-spot needs assessment was critical.

The purpose of the mission I led was therefore to gauge the commitment of the leaders of these four "second wave" countries to broad, deep economic reform, and to ascertain as specifically as possible their top priority needs in terms of support for reform programs in calendar year 1995. We were received by all four chiefs of state -- President Leonid Kuchma of Ukraine, President Piotr Lukashenko of Belarus, Chairman Eduard Shevardnadze of Georgia, and President Levon Ter-Petrosyan of Armenia. We had detailed exchanges with the reform teams in each country, the Prime Ministers and Deputy Prime Ministers and ministers responsible for the economy. I would like to report to you on our findings.

In each country we found encouraging signs that the reform programs already underway are working. State subsidies to the economy were being eliminated or reduced. Budget deficits were therefore heading downward too. And since inflation in the NIS is usually stoked by government emissions of unbacked money or credit, so was inflation, albeit unsteadily. Currencies were stabilizing. Economic decline was slowing; economic activity was picking up.



We found spreading recognition that the pain of economic reform was worth the political cost and the political risk, because the alternative to economic reform was continuing and perhaps eventually irremediable national decay. The leaders we talked to were committed to ploughing ahead with the tough... stabilization and restructuring programs negotiated and agreed to with the IMF and the IBRD. They expressed their commitment with varying degrees of urgency. It was strongest in Armenia and Ukraine, which also had the most impressive reform teams. But each government was ready to move forward into bold economic reform programs with the IMF and IBRD if only they could get the international support these programs need.

Each believed that 1995 would be the critical year for reform in their country. Each was grateful for what we have done for them in the past. In Armenia and Georgia we were told that their countries would not have survived without U.S. support, both bilateral and in multilateral fora. Armenian Prime Minister Bagratian reminded us that in our retirements we would look back and appreciate what the U.S. had contributed to Armenia's 5000-year history. It was a nice moment. But all these leaders made clear that they were counting on us in 1995 as well. -

They especially stressed that support for critical imports is vital if these reform programs are to be made to work. We made it clear that like many other donor countries we have particular difficulty providing direct grant support for balance-of-payments financing. We made them aware of Secretary Christopher's assurance last November to then-Chairman Hamilton of this Committee that it is not our policy to provide such support from FREEDOM Support Act resources, and that if circumstances change we will consult fully with the Congress. The answer was that the reform process shrivels the resources available for needed productive inputs into the economy from outside. Without outside support for critical imports, the comprehensive reform we have been urging on them would simply not be sustainable. And without U.S. leadership, the minimum international community effort needed to fill these critical external financing gaps would not be forthcoming.

Mr. Chairman, we have already pledged \$286 million in FY 1995 funding from FREEDOM Support Act resources and other U.S. Government programs against the external financing gaps of these four countries. We can make more available for these purposes from previously appropriated funds. But the projected residual requirement from bilateral donors exclusive of debt rescheduling and restructuring now exceeds \$2 billion, and the funds currently available will be inadequate to meet the challenge we have before us in 1995 and 1996. We have therefore included in the FY 1996 budget request funding for these purposes -- for "second wave" countries and also for "first wave" countries which may require additional support to keep their reform programs on track this calendar year -- at the level of \$115 million, of the \$788 million requested. We will wish to work closely with the Congress to ensure that U.S. leadership is there to help bring the second wave to shore.

U.S. Trade and Investment

Mr. Chairman, let me turn to the second new need we must meet if this program is to be successful.

Just as the second wave of NIS reform is nourished by the example of successful reform in countries that chose reform in 1992-1994, so the progress of reform is increasing demand for U.S. trade and investment. Privatization and private sector development are producing more and more eager potential partners for U.S. business. U.S. business is now the largest single source of outside private direct investment in the Russian economy, for instance, at or near the \$2 billion level. Over the longer run only the private sector can provide the resources needed for the restructuring of the NIS economies in the market context. It is destined to replace assistance as the basis for the normal, productive economic relationships we seek with these countries. In the short run, however, the economic risks of trading and investing in the NIS area are still formidable. It is one of the most promising emerging markets in the world, but the market environment -- the structure of laws, regulations, and institutions that efficient markets require -- is still fragmentary, and domestic resources are in short supply. U.S. firms need transitional help to get a foothold in these markets of the future.

That is why over the past year we have given increased emphasis in the assistance program to direct support for U.S. businesses seeking to operate in the NIS. OPIC, the Trade and Development Agency, and the Export-Import Bank are playing an important role in making it possible for U.S. firms to enter into joint ventures with NIS enterprises. That support is helping the reform process. But demand for these agencies' services is mounting sharply. The enterprise funds we have established to spur investment in local enterprises will help, as they shift into high gear this year. But we also need to maintain direct support of U.S. trade and investment from our government programs, and the Administration's FY 1996 budget will provide for it if the Congress approves it as requested.

It does so in the budgets of the agencies directly involved, rather than in the NIS assistance program. Over \$170 million for NIS activities is included in the budget requests by OPIC, TDA, and Ex-Im Bank. The reason is that this year we have tried to put most budget requests for NIS programs in the budgets of the agencies that directly implement the programs.

For the past two years we have requested most funds for NIS programs in the NIS account established by the FREEDOM Support Act. We have then transferred funds to other agencies for their NIS programs from this account. Centralized control and

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allocation made sense in the start-up phase of a large and politically important program. Now that efficient agency implementation is now well underway for trade and investment programs and exchanges, it makes sense to appropriate funds directly to the OPIC, TDA, and USIA budgets; this will permit them to plan more efficiently and incorporate these programs into their ongoing strategies as the FREEDOM Support Act account shrinks.

I and my successor will naturally continue to coordinate all these bilateral assistance programs as the FREEDOM Support Act and the President have mandated. Depending on market demand, these funds will support billions of dollars of investment and trade, with important benefits for both the United States and the NIS, both direct and in terms of reform progress.

#### Keeping the First Wave Strong

Mr. Chairman, the guiding principle of our NIS assistance program is that aid follows reform, and reform has come to the region not uniformly and evenly but in two waves. Before the second wave we visited began to take shape, there was a first wave. Between early 1992 and early 1994 four countries embarked on broad and deep reform programs, working together with the international financial institutions and bilateral donors. Those countries were the Russian Federation, the Kyrgyz Republic, Moldova, and Kazakhstan.

We wish to develop normal, productive relations with all twelve New Independent States, and our assistance program is therefore active in each during this transitional phase. The humanitarian assistance which was the core of the program in 1992-1993 was delivered to help people and thereby make reform possible, rather than to recognize reform commitment or reform progress. Similarly, the Cooperative Threat Reduction (CTR) program managed by the Department of Defense is geared by statute to helping with safe and secure dismantlement of weapons of mass destruction and related purposes in the four nuclear successor states of the Soviet Union. It too encourages democratic and market reform, but does not make it a criterion to operate.

By contrast, assistance under the FREEDOM Support Act is geared to reform. Under this program we have therefore devoted disproportionate resources to the four countries that chose bold, broad reform in 1992-1994, as well as to the humanitarian needs of Armenia and Georgia. It is now working across eleven time zones to help reformers build market structures, to help reformers build democratic governance, to help cushion and manage the social shock of transition. Reform programs and ~~reform~~ progress are messy and incomplete. There are setbacks as well as successes. We are all worried about the commitment to and prospects for reform in Russia and the other first wave countries. We have been worried since the beginning of the

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program; that is why two Administrations and two Congresses initiated and have supported the program. It may well be that first wave countries like Moldova will need additional support from the international community this year to keep their reform programs on track, and we have provided for funding for this... purpose in this budget request. But successes are accumulating. 1994 was on balance a good year for reform and for this program. Democratic and market reform remains very much a live option in the first wave.

Every delegation from the Administration and the Congress reports more and more first wave success stories. They are in the first instance stories of success on the ground. More than two-thirds of FREEDOM Support Act funding has gone to entities other than central governments, and over three-quarters has gone to support programs outside national capitals. Where funding goes to central governments, it goes to support institutional reforms that promote democracy and the market. Russia was the earliest and boldest reformer, and as reform in Russia proceeds we have been able to shift resources in both absolute and relative terms to non-Russian NIS reformers. In the first two years of the program, its humanitarian phase, about half our resources went to Russia. In FY 1994, the most critical year for Russian reform, that proportion rose to two-thirds. In the budget we are requesting for FY 1994, two short years later, it will fall to one-third. Mr. Chairman, this program has a strategy, it seeks the right partners, it is flexible, it is working. If it is to have the strategic impact we intended for it, it needs to have adequate funding to keep working. Now is the time to press forward rather than pull back.

And, Mr. Chairman, continued support for first wave reform remains critically important not just in its own right but for the second wave too.

That was what I and the members of my mission heard loud and clear in our discussions with the leaders of Ukraine, Armenia, Georgia, and Belarus last month. They focussed on Russia. Beyond their own critical needs, they urged us to keep up our support for Russian reform. Russia remains and will remain an important partner for all these countries, and their leaders told us how important it is to their own reform efforts for the U.S. to continue supporting reform and reformers in the Russian Federation.

They were determined to chart their own national paths to better national futures. Russian reform furnishes them with examples to avoid as well as examples to follow. All have important relationships with Russia, and none of them are easy. But they saw continued reform in Russia as a vital parameter for the success of their own reform efforts. They believed -- two months after the outbreak of the Chechnya crisis -- that democratic and market reform remains a live option in Russian politics and the Russian economy. They were convinced it is vital to them, and that it deserves continued U.S. support.



Mr. Chairman, this budget request provides for that needed support for reform and reformers in both the first and second waves at a minimum level. With direct appropriation to implementing agencies for direct support of U.S. trade and investment and for educational and academic exchanges, the bulk of the \$788 million requested will go to technical assistance, the offer of the best of American know-how and expertise that is the core of the program in its current phase. It is managed primarily by USAID. It will go to reformers who wish to put in place the laws, the regulations, and the institutions that must be put in place if democratic governance and effective markets are to become a way of life. It will be directed at the reform priorities that have been discussed and agreed to by the Administration and the Congress for three years now: privatization and private sector development; building the market environment by helping create efficient capital markets, tax and foreign trade regimes, and banking and financial sectors; economic restructuring; energy sector reform; building democratic political processes, the rule of law and modern law enforcement. It will follow the path of reform itself, and push it forward. It will keep American expertise on offer and working in first wave countries, and extend it to the second wave now coming on line. It will serve the U.S. national interest.

Mr. Chairman, this is a strategic budget, and it is a tight budget. It proposes to reaffirm the partnership between the Administration and the Congress to equip the United States to pursue a strategic national interest. It proposes the incremental funding needed to make good on our substantial investment in a better future for relations between this country and the emerging new nations of this critical region. It proposes to equip the United States to meet one continuing strategic need and two new needs at only marginally increased levels of funding.

Mr. Chairman, these three needs are functionally interrelated. We cannot successfully meet one without meeting the other two. Without continuing core technical assistance to help create new democratic and market environments in reforming countries, trade and investment cannot truly flourish. Without transitional direct support for U.S. trade and investment, the American private sector cannot fully engage and help move these economies to the point where assistance is no longer necessary. And unless we have the means to lead international efforts to support comprehensive reform programs in the "second-wave" countries, they may well fail, and make reform in the first wave even more difficult, and even more reversible.

Mr. Chairman, we look forward to working with you and your colleagues to gain your support for this budget request. I look forward to your questions. Thank you for the opportunity to appear before you.



## U.S. Department of State

### Ambassador Thomas W. Simons, Jr.

Tom Simons was designated by the President as Coordinator of U.S. Assistance to the New Independent States of the former Soviet Union in May 1993.

He is a Senior Foreign Service officer with the rank of Career Minister. He entered the Foreign Service in 1963, and was Secretary of Delegation and Technical Secretary on the U.S. Delegation to the Kennedy Round of GATT trade negotiations in Geneva, 1964-1967. Thereafter, he has spent most of his career working in East-West relations. Assignments have included: Consular and Political Officer at Embassy Warsaw, 1968-1971; conventional arms reductions and CSCE in the Bureau of Politico-Military Affairs in the State Department, 1972-1974; Member of the Policy Planning Staff of the Department, 1974-1975; Chief of the External Reporting Unit and Acting Political Counselor at Embassy Moscow, 1975-1977; Deputy Chief of Mission at Embassy Bucharest, 1977-1979; and Political Counselor at Embassy London, 1979-1981.



In the 1980's, Ambassador Simons achieved the record for tenure as Director of the Office of Soviet Union Affairs in the Department's Bureau of European and Canadian Affairs, 1981-1985, and served as Deputy Assistant Secretary of State responsible for relations with the Soviet Union, Eastern Europe, and Yugoslavia, 1986-1989. He was American Ambassador to Poland from September 1990 to April 1993.

Born in 1938 in Crosby, Minnesota, and raised in what became a Foreign Service family when he was 7, Ambassador Simons holds a B.A. (magna cum laude) from Yale (1958) and an M.A. and Ph.D. (1959 and 1963) from Harvard, specializing in West and Central European history. In 1957, he also received a certificat d'études politiques from the Institut d'Etudes Politiques of the University of Paris. He was an International Affairs Fellow of the Council on Foreign Relations at the Hoover Institution in Stanford, California, 1971-1972; a Member of the Senior Seminar in Foreign Policy, 1985-1986; and Diplomat-in-Residence and Adjunct Professor of History at Brown University in Providence, Rhode Island, 1989-1990. He has written over a dozen articles and book contributions on Central and East European history and culture and U.S. policy on East-West relations, and two books, both published by St. Martin's Press: *The End of the Cold War?*, a brief history of East-West relations in the 1980's (1990); and *Eastern Europe in the Postwar World*, a history of the area's Communist period (1991, second edition 1993). He speaks French, German, Polish, Romanian, and some Russian. He is a member of Phi Beta Kappa.

He lives in Washington with his wife Peggy. They have two children: Suzanne, a teacher of English in Philadelphia's largest inner-city high school; and Benjamin, a Ph.D. candidate in English literature at Yale.

Statement of Thomas A. Dine  
 Assistant Administrator for Europe and the New Independent States  
 United States Agency for International Development

Committee on International Relations  
 United States House of Representatives  
 One-hundred-fourth Congress, First Session

March 3, 1995

Mr. Chairman and Members of the Committee, I am pleased to have this opportunity to discuss with you our three-year-old assistance programs in the New Independent States of the former Soviet Union (NIS).

The majority in Congress has changed since I last appeared before this Committee, but U.S. national interests have not changed. Support for market economics and participatory democracies in the new countries of the former Soviet Union continues to be strongly in the U.S. national interest.

It is in the U.S. security interest that market-oriented democracies have a chance to develop in Russia, Ukraine, Kazakhstan, Armenia, and the other NIS countries -- and that lasting changes take root there. A peaceful transition to sustainable prosperity in the region dramatically reduces U.S. defense requirements and, ultimately, will create important new markets for U.S. trade and opportunities for overseas investment.

Robert McNamara once called foreign assistance a form of "insurance policy." He had a point. Foreign assistance is a unique and sophisticated instrument of foreign policy; in a sense, it is indeed a hedge against the vicissitudes of history. To use a different metaphor, I think of foreign assistance as an aspect of "preventive diplomacy." It is a prudent method of advancing our country's vital interests proactively, through international engagement and partnership, rather than reactively, through costly competition and conflict. USAID's efforts save resources by striving to avert crises rather than intervening after the fact.

Everybody knows that external forces cannot by themselves transform Russia, Ukraine, or the other NIS countries. The commitment and wherewithal for societal transformation must come from within those countries. But foreign assistance, where USAID has played a unique and leading role, has been -- and will continue to be -- a crucial tool to influence the course of change in the former Soviet Union.

USAID programs are having an important impact precisely because our assistance strategy focuses on the fundamental structural reforms -- in both political and economic spheres -- that make systemic transformation possible and sustainable in the NIS countries.

The impact of USAID assistance in the NIS region can be seen in both the vector (the content and direction) and the speed of change. By focusing on systemic reforms, USAID programs have helped shape the content and character of these "new independent states" -- namely, in the direction of modern pluralist polities and commercially-driven economies that can be gradually integrated into the global community of free nations. By targeting reformers in reforming countries, USAID programs have also helped to bolster the constituencies for change and accelerate the transition process.

I can report that reform is alive across most of the former Soviet Union. Over the next three years, we will seek to consolidate and deepen the gains already achieved throughout the "first wave" of reforming countries, primarily in Russia. We will, furthermore, focus on new opportunities for active engagement with an emerging group of reformers, led by Ukraine, Armenia, Georgia, and potentially Belarus.

#### **I. Building an Environment for Prosperity: Systemic Reform**

Stated most directly, our goal is to help create an **environment for prosperity** in Russia, Ukraine, Armenia, and the other NIS countries. By this, I mean collectively the institutions and structures, the patterns and habits, which make up the necessary preconditions for free enterprise, competition, and open participation in private markets and democratic political systems.

Designing a favorable institutional environment -- that is, establishing good laws, efficient economic structures, responsible regulatory mechanisms, and a fair balance between private and public spheres -- is a prerequisite for prosperity. Only in such an enabling environment can a nation thrive and become a fully integrated member of the world community.

To get there, the Soviet successor states require systemic transformation, which is, by definition, revolutionary yet long-term. Such transformation involves many interlocking and interdependent changes of profound social significance:

- from the so-called "dictatorship of the proletariat" where the individual serves the state to real democracy where government serves the people;
- from a command economy planned by commissars to an open market energized by private entrepreneurship;
- from a system in which law is a tool of one-party power and social control to a system in which the rule of law reflects a pluralistic and fair social compact;



- from a closed society where knowledge is secret to an open society where information flows freely;
- from an economy dominated by military production to an economy serving the needs of citizens and the wants of consumers.

It is important to stress that true systemic reform, while "macro" in its significance, is organic and comprises a myriad of "micro" changes at the local level. Individual actors -- citizens, workers, managers, companies, and social groups alike -- must begin to think and act differently. Thus, USAID's strategy is to focus U.S. technical expertise where it can reinforce systemic changes, both "from above" and "from below" -- that is, from the grassroots.

This strategy is efficient and cost-effective. First, it uses America's comparative advantage in technical know-how -- tapped from our own public, private, and NGO spheres -- and applies that expertise in the pursuit of U.S. foreign policy objectives. Second, U.S. technical leadership has leveraged hundreds of millions of dollars in support from other donors who have eventually followed our lead at critical junctures of reform. Third, it is clear that only massive structural changes will establish political and economic environments likely to attract to the NIS countries the substantial investment and foreign trade needed to accomplish complete transformation in the long run.

Focusing on systemic change is, therefore, akin to cultivating farm land for long-term use rather than just trying to reap a single harvest. It is the nature of market democracies to evolve into self-sustaining systems, but they must first be well designed and adequately nurtured. Political systems must be developed with the basic instruments for public voice, and with checks and balances within and outside government. The forces of reform must be engaged both at the national level and at the grassroots level. These are the prime tasks on which USAID is concentrating in the NIS countries. The payoff from our investment in "preventive diplomacy" will be exponential, both in dollar returns and in enhanced national security.

## II. Examples of Systemic Reform and USAID Impact

Systemic reform means changes that go to the root of social arrangements: a new way of doing business, a new kind of state, a new social contract. In the case of the NIS countries, these reforms must reverse over 70 years of Communist folly under the guise of "social experimentation." They also represent a historic departure from, literally, centuries of non-Western development.

A few examples will illustrate in concrete terms what I mean by systemic change as well as the substantial impact which USAID technical assistance programs are having on the vectors of reform across the former Soviet Union -- at national, regional and grassroots levels.

These examples will also illustrate that reform is not a one-time, discrete event. Each step of progress reveals areas for more work. Each victory inevitably leads to new challenges. And, at times, some of the harshest new problems may appear precisely in areas where we have made important progress.

**(a) Democracy and the Rule of Law**

(1) **Free and independent media** are the lifeblood of democracy. But just a few years ago, Soviet dictatorship was based on state control of information and the use of the media for one-party propaganda and agitation. As a dark political joke used to say, in the USSR, freedom of speech was easier to guarantee than freedom after speech.

If reports of the recent disturbing events in Chechnya have had any redeeming feature, it is to remind us how far from that past Russia has already come. Throughout the upheaval, the media have accurately reported and vigorously exposed the conduct of the military operation and the human suffering in Chechnya. In Russia, the government is no longer immune to public scrutiny and censure. Thanks to the courage of correspondents and photographers, Russian citizens today are informed of the good and the bad in their country. As we know from our own experience, there may be no better check on government power than a well informed public.

We Americans can take pride in the fact that our tax dollars have made a contribution to this transformation. USAID's programs, along with those of our colleagues at USIA, have supported the independent media. Under USAID funding, small television studios in provincial cities have been linked into a growing network of producers and broadcasters, sharing programs, spreading know-how, and bringing uncensored news to their viewers. These outlets were important links in the growing chain of free media that are giving Russians the information they need to make democracy work.

(2) Only three years ago, **elections** in the Soviet Union were false exercises, devoid of democratic significance. Typically there was 95% voter turnout, a 95% margin of victory for the Communist candidate, and it was a 100% farce. Today, while turnout may have decreased, the quality of elections has changed dramatically: they are democratic. In former Soviet Union, this elementary change is a revolutionary development.

Throughout the NIS region, elections -- for parliaments, for presidents, for local governments -- as a rule have been deemed "free and fair" by neutral domestic and international observers. Governments have respected the ballot box and changed peacefully. Winners, like Ukraine's President Kuchma and Belarussian President Lukashenka, have found points of compromise with their former opponents, and those opponents are loyal to the electoral system and remain within it.

Here too, U.S. assistance has made important contributions. Electoral commissions in NIS countries requesting help in drafting new electoral laws that reflect a multi-party system have been assisted through USAID-funded legal expertise. And non-partisan groups that wish to perform the civic duty of poll-watching -- to be the guarantors of fairness for their fellow citizens -- find USAID grantees ready and able to help them learn how.

A corollary of the principle of accountability in government, embodied in free elections, is the idea of "civil society," embodied in the development of nongovernmental advocacy organizations as tools of public voice. USAID is helping develop NGOs in the NIS countries by establishing a clear legal basis for their operation as well as through technical training.

Another area in which USAID programs support deeper democratic reform is regional and local self-government, which is a common feature of new constitutions such as those of the Russian Federation and Belarus.

(3) The provinces of the old Russian Empire had forms of jury trials dating back to the mid-19th century. However, after the 1917 Bolshevik Revolution, the jury system was abolished. During the Soviet period, criminal trials were reduced to tools for social control by the government.

In the past two years, Russia and some other NIS countries have embarked on the wholesale transformation of their justice systems into one based on the rule of law. Among other developments, a limited right to a jury trial is now guaranteed in the Russian Constitution. Accordingly, the Russian legislature passed new laws to reinstitute criminal jury trials and to reform the substantive and procedural criminal codes. Recently, the legislature of Belarus also passed a criminal jury initiative.

USAID has provided substantial technical assistance in the reintroduction of jury trials, including multimedia training for judges, prosecutors, defense lawyers, and jurors. USAID-sponsored legal experts helped the Russians produce and publish a standardized "benchbook" on jury trials for judges.

The results have been dramatic in Russia, where over 120

jury trials have been held in nine regions. Russian judges now scrutinize the state's evidence for its admissibility before juries. Russian juries dare to stand up to the power of once-omnipotent prosecutors, to make their own independent decisions, and to acquit defendants against whom the state has failed to present sufficient evidence.

Legal systems are organic. Change in one part of the system affects the whole. The jury reform is having an impact on the entire Russian legal establishment, as new norms of justice are developing and as legal professionals begin to see their roles fundamentally transformed. But progress in criminal jury trials also serves to highlight the deficiencies in other areas of the legal system and points to new challenges. The principles of due process, fairness and transparency embodied in public, adversarial jury trials need to be applied to all other areas of law -- from commercial cases to family law cases.

These are only three examples of how USAID-funded programs have made a significant impact on the systemic evolution from authoritarianism to democracy. Let me share some examples of USAID-supported structural change on the economic front.

#### **(b) Privatization and Economic Restructuring**

(1) Today, a quiet microeconomic revolution is afoot in the NIS region. As a result of USAID-assisted **mass voucher privatization** in Russia, about 80,000 small retail, manufacturing and service enterprises and 20,000 medium and large industrial enterprises are in private hands. Nearly 70 percent of the state-owned economy has been privatized. Once privatized, enterprises are indeed restructuring to become more efficient in response to market forces. Product lines are changing, new markets are developing, and employee rolls are being cut.

Forty million citizens own shares in privatized firms and have a personal stake in the reform process. Over forty percent of the industrial labor force now works in the private sector. Twenty-five percent of Russian households now own their homes.

Starting from a base of virtually 100 percent government employment, ownership and control, these changes in the space of three years are remarkable. Change is visible in people's lives. Shops are stocked with goods, private entrepreneurs set up small businesses everywhere, choice and opportunity have expanded. Consumption is beginning to rise. The vocabulary of economic debate has been altered in favor of free markets. The face and character of the Russian economy are being transformed. With USAID assistance, Ukraine is about to embark in the same direction.

Mass ownership of stock is only the first step toward a market economy and raises a myriad of further issues about



mechanisms of transfer and regulation of securities markets. Consequently, USAID-funded experts are working with Russian counterparts to develop a responsible, independent Securities Exchange Commission as well as other legal and regulatory reforms that will serve to integrate the newly privatized properties into a fully functioning market economy.

(2) **Restructuring.** Privatization involves much more than transfer of ownership. It also entails a profound transformation of attitudes, roles, and the behavior of individuals and organizations. Such a sea change in how business is done in the reforming NIS countries will not happen overnight, but there are already some encouraging signs that this economic empowerment of individuals is well on its way.

The Vladimir Tractor Factory in Russia offers a good example of these changes. Shortly after the tractor plant was privatized, the stockholders got together to vote on a new CEO. Many of the stockholders are workers in the factory. The two contenders for the post posed a stark contrast: an old manager from the Soviet system, and a young deputy who had received an MBA in the U.S. The young deputy told the shareholders and workers the truth about the condition of the plant and the cost-cutting measures that had to be taken to make the company profitable. The old manager promised guaranteed jobs and wages -- and won. Less than a year later, when it became ever more clear that the old Soviet thinking could not work, a new election was held. This time, the reform-oriented candidate was elected to be CEO, and now the factory is on the difficult road to recovery.

Stories like the Vladimir Tractor Factory illustrate the difficulty of progress even after the success of mass privatization. Sound practices of corporate governance and the spread of managerial know-how are the keys -- the next steps -- to sustainable restructuring at the enterprise level in Russia, Kazakhstan, Ukraine and the other countries in transition.

(3) The new way of doing business in the NIS countries must also be codified into law. Thanks to USAID-funded legal assistance, **modern commercial laws** are being developed, drafted and passed into law, for example, in Russia and Kazakhstan.

On January 1, 1995, Part I of Russia's new Civil Code, containing basic business law provisions such as ownership, mortgages, corporations, contracts and obligations, went into effect. The next step in the process is assistance with the formulation of Part II, including laws on speciality contracts, intellectual property, inheritance, and international conflict of law. Tax reform is another related imperative.

But to be meaningful, commercial codes ultimately require reliable courts to enforce their provisions. USAID-sponsored

experts are working on the development of appropriate judicial structures and the training of arbitration judges in Russia, Kazakhstan, and other NIS countries.

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Without the commitment and courage of the peoples of the NIS countries, these reforms would not occur. Without USAID assistance, however, the reforms and the reformers would lose the benefit of our expert know-how and the catalyst of our support.

The undeniable glory of these first steps, and their stark contrast to what came before, should not blind us to the distance that there is still to go. USAID is prepared to be a partner in the critical next steps of reform.

The unequivocal lesson from the NIS countries is that there is absolutely no substitute for leadership commitment to systemic reform. The road to post-Communist prosperity leads through sustainable systemic reform. The NIS countries that have postponed reform -- or settled for piecemeal measures -- have, as a consequence, prolonged their own stagnation. But the countries that have embraced fundamental change, despite all the concomitant discomforts and dislocations, now find themselves squarely on the road to far better futures.

### III. The New Reformers: Ukraine, Armenia, Georgia, Belarus.

A new wave of NIS countries -- Ukraine, Armenia, Georgia, and potentially Belarus -- has launched comprehensive economic and political reform programs in cooperation with the World Bank and IMF. Having stalled their reforms for more than two years since independence, these "second-wave" countries are generally weaker than the initial reformers -- Russia, Moldova, Kyrgyzstan, and Kazakhstan.

Politically, their extended wavering on reform, combined with inflation and economic decay, has not only cost time but has eroded public tolerance for economic austerity. Nevertheless, 1995 will be the decisive year for these countries. This year represents a critical opportunity for US assistance to support the new reformers.

**Ukraine.** No country better illustrates the possibilities created by reform. We have accomplished more -- and spent more -- in Ukraine in the past three months than in the previous two years. After delays on mass privatization, fifty million privatization certificates are being distributed to the citizens of Ukraine. Images of two cargo planes carrying U.S.-financed privatization certificates dominated nightly news broadcasts. Ukrainian television viewers could see American assistance turning the

abstract idea of privatization into an economic reality that will benefit the entire country. Bid centers where people can buy enterprise shares are opening on a tight schedule. Recent measures to liberalize the economy and let the market work are making it possible for small businesses to thrive.

These positive changes affect people, not just economic statistics. Restructuring means there will be economic pain. But Ukraine's commitment to reform allows us to work on programs that will help the poor and aged endure the stress of transition. We are about to launch with the Ukrainians an innovative new program that will help pensioners capture part of their savings, lost to inflation, through supplementary privatization certificates. Once these pensioners see their personal future linked to the success of the marketplace, they too will become a voice for reform. In the housing area, USAID is helping the government devise a targeted subsidy program. It will alleviate the budget gap by making those who can pay the real cost of rent. It will redirect government subsidies to those who can't pay. This is capitalist reform with a human face.

Critical arteries of the Ukrainian economy are also becoming unblocked. Our recent \$72 million energy sector grant kept power going to homes during the harsh winter months. It also led to concrete actions that will stimulate competition and rational pricing in the energy sector, conditions essential to both investment and efficiency. Agricultural land privatization remains a sensitive issue, but we have helped President Kuchma design a trilateral Land Commission that includes the parliament. If implemented, it could unlock the vast potential of the agricultural sector.

Not so long ago U.S. agribusiness companies from every part of the Mid-West exported critical inputs to Ukraine: seeds, fertilizers, farm equipment. Lack of reform in Ukraine shut down the shipments. USAID and the U.S. Export-Import Bank are exploring the possibility of establishing a joint venture with the private sector that would get these inputs back into Ukraine. The challenge is to structure any program so that Ex-Im would guarantee a certain amount in U.S. agricultural exports and still adhere to its legislative mandate to secure "reasonable assurance of repayment." Ideally, private U.S. companies would match that amount.

**The Caucasus.** Both Armenia and Georgia have reached a critical stage in their development. It is time to end dependency on humanitarian aid and create the foundations for sustainable growth. They have made a bold start. Their tough economic reform programs have controlled their budget deficits, clipped rampant inflation, and strengthened their currencies.

The hardest challenges are now ahead. The first is

political stability. Neither country can afford the costs of war. Neither country can afford to keep driving potential investors to places that offer greater security. These peoples are talented and energetic. They have a history of cultural greatness. But international markets offer too many alternatives to lure capital into pockets of uncertainty like the Caucasus today.

The second challenge is structural reform. Neither Armenia nor Georgia is ready to sustain a total shift from humanitarian to technical development assistance. Yet neither can afford to delay moving the economy from state control into the private sector. Armenia has started the process with vigor. Its aggressive privatization program is designed to move most state holdings to private hands in 1995. Georgia needs to better define its privatization efforts, but it is proposing bold measures to cut back the size of government by 25 percent in a year.

In both countries I believe USAID has a niche in the financial and energy sectors. We are looking at ways to make the banking sector work. And in the course of it we will try to leverage EBRD funds, such as a potential \$30 million credit line for small and medium enterprises for Georgia. Energy is also critical to getting businesses up and running again. We have helped considerably with fuel and essential spare parts, but now the time has come to put energy policies in place that promote both efficient use and sustainable energy supplies.

**Belarus.** The Belarussians are a conservative people, but they take pride in their ability to meet international agreements. It is safe to say that no NIS country has moved more aggressively on IMF-designed macroeconomic stabilization in the past few months than Belarus. Fiscal and monetary policies are tight, and one can see their clear impact in a growing private sector, active food markets, and new stores and shops that have sprung up throughout Minsk.

Like Georgia and Armenia, Belarus still needs to get the state out of the economy to sustain its macrostabilization. In this regard, Belarus is cautious. Small scale privatization, which we have implemented with the International Finance Corporation, is working well in three cities and could expand. But three cities do not make a private economy. Moreover, skewed tax structures will strangle private businesses if they are not adjusted. We will help Belarus continue with small scale privatization. We can support farmer-to-farmer exchanges. We can also help in some key areas that promote the rule of law and in which the Belarussian government has made reform initiatives. But Belarus needs to make the tough choice to push these first steps through to the level of fundamental structural change. USAID will be prepared to respond if they show the commitment.

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These western (Ukraine and Belarus) and southern (Armenia and Georgia) frontline countries of the former Soviet Union are of paramount geostrategic significance to the U.S. and its allies. It is highly instructive that Ukraine's President Leonid Kuchma and the presidents of the other three countries each emphasized to us on our recent fact-finding mission that continued U.S. support for reform in the Russian Federation is imperative from the standpoint of the second-wave countries, Russia's neighbors.

Indeed, U.S. foreign assistance policy has been based on this view so recently articulated by President Kuchma that support for Russian reform is paramount precisely because the evolution of reform in Russia has serious ramifications for the prospects for change elsewhere in the NIS region. Thus, in terms of U.S. national interests, reform in the first-wave and second-wave countries is not an "either/or" dilemma, but a "both/and" proposition.

#### IV. USAID/ENI Management Reforms

To put the point bluntly, we will not waste U.S. taxpayer dollars to provide technical assistance where reformers do not, or cannot, flourish.

I took this job recognizing its management challenges and the inherent frustration of being held accountable for reform in the NIS with resource levels that amount to a tiny fraction of the economies in the region. I knew that we could not do everything. I came firmly committed to doing fewer things with greater impact. I realize that we will not meet everyone's expectations. But I also believe that we have made progress to create a more focused program that is producing results and will build on the lessons of experience.

Not every program has gone as well as we would have liked. The situation on the ground in the NIS countries changes rapidly and, consequently, developing grassroots organizations, nurturing small businesses and promoting the rule of law are a tough challenge. This is especially true in countries where the U.S. had no presence prior to 1992. We are learning from experience and accordingly adjusting our programs, contracts and grants on a regular basis.

I can assure you of the following:

- Taxpayer dollars get focused on reform and reformers, with budgets radically scaled back where they will not produce results.
- Non-performing programs are being terminated or phased

out, with fund shifted to higher pay-off activities.

- We have re-worked programs in key fields such as the rule of law and small business development to get better results.

- More Americans from more firms and private and voluntary groups throughout the country -- not just the beltway -- are participating in this historic venture than ever before.

- USAID is working hand-in-hand with other U.S. agencies as part of a team to achieve U.S. foreign policy objectives.

Let me address these points in greater detail. First, we radically contracted assistance to non-reforming countries. We have cut our programs to Turkmenistan, Tajikistan, and Azerbaijan, and capped them at under \$10 million. We have kept assistance to Uzbekistan at just over \$10 million and are watching closely its recent reform efforts, as well as its performance on human rights, before expanding our programs. We have also kept the Belarus program at under \$10 million and focused on grassroots activities, although careful expansion may now be justified in light of recent reforms.

Second, I have demanded that we bring to closure non-performing programs. I have made my senior managers accountable for cutting activities that do not meet the objectives for systemic change that I have described here today. This process of vetting and refining is not a one-time change. But let me highlight some areas where we have made strides:

- General public education on the market economy in Russia did not show results in the mid-term evaluation and the contract was terminated.

- Officer resettlement program: We canceled two contracts in this sensitive area. One contract was canceled because the host city did not comply with contract terms; the other, because the contractor did not comply.

- Grain storage: A program thought to be urgent need in the early days of U.S. assistance proved less urgent and the rush to start-up produced poor results. After review by USAID's Inspector General, we terminated the program.

- Demonopolization activities in Uzbekistan and Ukraine: Such programs will ultimately be critical to creating free-market competition; however, local counterparts did not cooperate. Consequently, the activities were cut and

reprogrammed.

- Water purification: Projects such as water purification, which are "good things" in principle but do not represent systemic change, have been cut.

- Public Education in Kazakhstan: Such projects are needed, but not of highest priority in the context of limited assistance resources. These activities were reprogrammed to commercial and regulatory reform.

Third, we are striving to make our ongoing and new programs sharper and better directed so that they achieve results faster.

- Rule of Law programs in Ukraine and Russia have been adjusted and focused to work much more closely with reformers and produce results sooner.

- Small business development in Russia, Armenia and Georgia has proved slow, and we have made adjustments in contracts to focus on fewer cities, with greater emphasis on credit and banking reform.

- Land reform in Russia and Ukraine has been slow and painful for the countries to undertake. While we initially had expected to use private U.S. models in Russia and national land reform legislation in Ukraine, neither program advanced until we changed direction. In Russia, we refocused on urban land reform and on many models of farm privatization. In Ukraine, we shifted from the national level to local private programs which are now feeding their experience up to the central government, resulting in draft presidential decrees that may mobilize national support for broader local efforts.

Fourth, I must stress that I have done everything I can to take this program "beyond the beltway" and into America.

- For example, as part of the "reinventing government" efforts Administrator J. Brian Atwood has undertaken at USAID, a recent major competition for privatization contracts achieved broad outreach through internet, nation-wide newspaper ads, and bid conferences. The awards are just now being made, but we will see a significant number of firms doing business with USAID for the first time, including a substantial number of small and minority-owned businesses.

- Let me cite data for the region I supervise as a whole through December 1994, excluding the new contract awards I just mentioned. Over 52 percent of the total number of

all contracts, grants, and subcontracts have been let to firms outside the Washington metropolitan area; 10 percent are with other U.S. Government agencies; and less than 38 percent are with "beltway" firms. These proportions represent progress. But we will do better. Now I need your help to get the word out that the "Beltway Syndrome" at USAID has been cracked.

Finally, I want to stress that USAID is fully engaged as an active partner in U.S. foreign policy efforts with respect to the NIS region.

I have taken every possible measure to simplify USAID's relations with other agencies and to promote a common approach to U.S. policy objectives. We changed the way in which we make interagency agreements to make them faster and eliminate USAID oversight that others are better suited to perform. I personally have met with every USG agency involved in assistance to the NIS countries. Particularly under the auspices of the Gore-Chernomyrdin Commission, we have shown how the USG can pull together to present a united front on business, energy, environment, space and other issues in our national interest. Do we have internal debate? Of course. Good policies could not emerge without it. But when decisions are made, we pull in the same direction to implement them.

In FY 1994, USAID transferred almost \$365 million to other USG agencies -- about 20 percent of USAID's total budget for the NIS region. This year we will transfer on the order of another \$275 million. We will do it promptly, but we will also look at the cash flow of the recipient agencies to ensure that they can readily use the requested amounts. I know that this Congress appreciates this kind of prudence.

#### **V. Future Directions: The FY 1996 Budget Request**

The FY 1996 budget request is designed to advance our assistance efforts to the next logical steps in the reform process in the NIS countries. Let me summarize the key funding areas.

First, we propose to finance a core program geared to the systemic changes which I described earlier with \$395 million. These programs include "next steps" to reinforce the momentum of reform, such as:

- consolidation of mass privatization, particularly in countries such as Ukraine, Moldova and Kazakhstan
- development of capital markets and financial regulatory systems



- land privatization and development of real estate markets
- tax and banking reform
- democratic and participatory political processes
- judicial and legal reform
- technical help and enterprise funds for new businesses and privatized enterprises
- exchanges and broad-reaching training programs targeted at the foregoing areas.

Second, we would create a structural reform support fund -- \$115 million -- to boost the emerging NIS reformers, such as Ukraine, Armenia, Georgia, and potentially Belarus. These countries need reinforcement, beyond technical assistance already in the core program, to implement comprehensive economic restructuring.

Our objective is to catalyze sustained structural reform so that these countries can lift themselves from dependency to growth. Our tactical approach ideally would be to fund key productive inputs such as seeds, farm equipment and fuel that can generate rapid, tangible returns. We will also offer additional technical support when it would make a critical difference in implementing a structural reform program.

Third, we propose to reserve \$278 million for sectoral and grassroots programs, which encourage microeconomic, local actor change from the bottom up. These programs include:

- family planning and health
- housing and municipal reform
- humanitarian assistance
- people-to-people programs
- energy and nuclear safety
- anti-crime and law enforcement efforts

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The last point on crime and law enforcement merits expansion here. The Soviet system has left a dubious legacy of crime throughout the various NIS countries. As new social contracts emerge, Russia and the other NIS countries must contend with the legal and institutional void that opened a door to crime, in particular organized crime, financial crime, and official corruption. The pervasiveness of crime is an obstacle to sustainable economic and political progress in the NIS countries.

Crime and corruption have several roots, some of which we can begin to address with sharply targeted assistance. We have a strong rule of law program that is helping build not only the legislative base for a Russian "war" on organized and white-collar crime, but also the juridical institutions to prosecute and punish offenders. Establishment of the rule of law is the necessary context for technical assistance relating to law enforcement that is being provided by other U.S. government agencies, such as the FBI, the Secret Service, the IRS, and the Department of Justice.

In addition, we will continue to work to eliminate the conditions which breed these kinds of crime. Much of the linkage between organized crime and official corruption is attributable to remnants of the old command economy. Fixed prices and controlled access to goods produced officials willing to sell that access or capture the difference between fixed and market prices. Today, these opportunities are fewer, but they are still there - especially in the natural resource sectors. By assisting in the establishment of an open market economy, USAID contributes to the elimination of these opportunities.

USAID will also continue to develop independent and investigative media that will play the same vital role in uncovering and exposing official misconduct that they do in other free societies. Finally, in our support for democratic elections at all levels of government, we are helping remove the de facto immunity from prosecution that many local elites have traditionally enjoyed.

### Conclusion

I do not suggest that the transformations have been fully accomplished, or that some setbacks have not occurred, or that other disappointments will be avoided in the years to come.

The transition from stagnation to prosperity, from isolation to normalcy, is a long-term endeavor. Most of the problems are vast, and many of the changes will be slow. Indeed, the needed changes are ultimately psychological and cultural in nature. The processes of reform must flow both from the top down and from the ground up, from the national level and from the grassroots.

New laws and institutions are being introduced, but they remain abstractions until people's patterns of behavior -- both economic and political, both public and private -- change accordingly. What Tocqueville aptly called "habits of the heart" must coalesce around the new institutions to make them last. Adopting a constitution is one thing, endowing it with living meaning is another. Our fortunate Republic has learned this lesson

from long experience in the pursuit of "a more perfect union."

Neither the U.S. alone nor all the industrialized powers together have the capacity to "remake" Russia and the other NIS countries. Nor would it be our place to do so if we could. These are not defeated or occupied countries. The challenge of reinvention belongs to the NIS peoples themselves, because it goes to the heart of their national identities.

USAID's role is mandated by our own national interests; it is also limited by both prudence and necessity. Mindful of the virtue of self-reliance, and constrained by domestic resource realities, USAID focuses assistance on areas in which we can make the biggest difference to the NIS countries as a partner for change.

The strategy of targeting the structural reforms that lead to the systemic transformation of Russia, Ukraine, Kazakhstan, and the other NIS countries is working. It is the best investment of our limited foreign assistance resources.

I intend to maintain the sharp focus and integrity of USAID's programs throughout the NIS region. We will strive to ensure that the post-Communist transitions of the NIS countries will be lasting and irreversible, despite inevitable detours. The challenge is at times daunting, but there can be no doubt that the consequences of inaction would be intolerable.

We at USAID are strictly accountable to the American people and their representatives in Congress for the mission with which we are entrusted. I take seriously the responsibility you have given me as a steward for the U.S. taxpayer. We are accountable not only for the U.S. resources expended but also for the results our assistance is reasonably expected to produce. You have my pledge to continue to do the utmost to meet this historic challenge.

Mr. Chairman and Members of the Committee, thank you for this opportunity; I look forward to your questions.



## Thomas A. Dine

Assistant Administrator for Europe and the New Independent States  
U.S. Agency for International Development

Thomas A. Dine was sworn in Feb. 11, 1994, as assistant administrator for Europe and the New Independent States of the U.S. Agency for International Development (USAID). USAID is the government agency that administers economic and humanitarian assistance worldwide.

Dine, an American foreign and defense policy expert, has worked during the past 31 years in national security affairs for the U.S. government and think tank and academic institutions.

Before joining USAID, he headed the American Israel Public Affairs Committee (AIPAC) from 1980 to 1993.

Prior to that, Dine worked in the U.S. Senate for 10 years, serving as legislative assistant for foreign affairs to the late Sen. Frank Church; national security staff director of the Senate Budget Committee; SALT adviser to former Sen. Edmund Muskie; and deputy foreign policy adviser to Sen. Edward M. Kennedy.

While a senior fellow at the Brookings Institution in 1979, Dine co-authored a chapter on the defense budget in the book *Setting National Priorities*. He also has held fellowships at the Kennedy Institute of Politics, the Center for International Affairs and the Program for Science and International Affairs at Harvard University.

He served as Peace Corps congressional liaison in Washington, D.C., and as a Peace Corps volunteer in the Philippines from 1962 to 1964.

Born in Cincinnati, Dine has a bachelor's degree from Colgate University and a master's degree in South Asian history from the University of California at Los Angeles. He is in the process of earning a master's degree in liberal arts in the history of ideas from Johns Hopkins University.

Dine lives in Washington, D.C., with his wife, Joan. They have two daughters, Amy and Laura.



**PREPARED STATEMENT OF HAROLD P. SMITH, JR., ASSISTANT TO THE  
SECRETARY OF DEFENSE (ATOMIC ENERGY)**

Mr. Chairman and members of the Committee, I am pleased to have the opportunity to appear before you today to discuss the Department of Defense's Cooperative Threat Reduction (CTR) program. I will discuss the program's management, implementation, accomplishments, and future directions in this historic effort to reduce or eliminate the weapons of mass destruction in the former Soviet Union that continue to pose dangers to the United States.

The Cooperative Threat Reduction, or Nunn-Lugar, program addresses the dangerous conditions that arose with the disintegration of the Soviet Union. The political, economic, and social upheaval called into question the ability of the new independent states (NIS) of the Soviet Union to maintain effective control over the nuclear and other weapons of mass destruction which remained. Not only have these same conditions and corresponding dangers persisted into the post-Soviet, post-Cold War period but, in many cases, they have worsened. These conditions continue to pose major threats to U.S. security interests. In the face of these threats, the ability of the NIS to accelerate or fully comply with their arms reduction and arms elimination commitments is uncertain and in large part may be dependent on assistance.

As you are aware, through the CTR program the Department of Defense provides equipment, services, and technical advice to Russia, Belarus, Kazakhstan, and Ukraine to assist them in eliminating (or, as in the case of Russia, reducing) the weapons of mass destruction remaining from the Soviet era, and preventing proliferation. CTR also addresses the associated weapons of mass destruction infrastructure and production capability to transform it into peaceful civilian assets. Since FY92, Congress has authorized a total of \$1.6 billion in Department of Defense transfer authority or appropriations for CTR assistance. Nearly \$330 million of this authority expired before it could be used. Still, the United States has proposed to obligate \$1.181 billion of the \$1.27 billion in existing authority.

*Tightened Program Management and Focus in a Year of Implementation*

During the past year the CTR program experienced a dramatic take-off in what we call the "Year of Implementation." In May 1994, the Secretary of Defense directed the establishment of the CTR Program Office within my office. The Program Office focuses the attention of a dedicated staff on effective and efficient implementation of CTR's objectives, which is especially important in light of the belt-tightening required throughout the

Government. Today the Program Office is responsible for executing more than 100 individual acquisition actions.

Although early management-intensive acquisition approaches in the program called for the provision of individual items of equipment or single contractors for each portion of a project, our strategy has evolved into one of integration. Over time, the NIS governments have grown more amenable to the concept of large contractors integrating the disparate pieces of complex projects. This new and streamlined acquisition and implementation strategy and approach, based on integrating contractors managed and monitored by a centralized Program Office, will ensure a tight, focused, and efficient program that gives the taxpayer the biggest payoff possible for his or her dollar.

Adding to this trend toward tighter management and implementation of the CTR program is the development this year of the first yearly CTR multiyear plan, which describes the details of a comprehensive program for carrying forward the momentum achieved to date toward reducing the threats associated with weapons of mass destruction in the NIS. This Program Plan contains CTR activities and funding requirements beginning with FY96 and concluding with FY2001, when the CTR program will be completed. The projects detailed in the Plan, like the ones underway today, are designed to help accelerate by nearly two years the current NIS strategic offensive arms elimination schedule. Additionally, the Program Plan includes projects which seek to ensure safe and secure transportation and storage for nuclear warheads and fissile materials in connection with warhead dismantlement by Russia; and to jump-start Russia's implementation of the Chemical Weapons Convention (CWC), under which it will destroy its chemical weapons stockpile.

New initiatives during the past year include an effort in which CTR assistance to Ukraine can accelerate, by up to three years, that country's schedule for eliminating SS-19 intercontinental ballistic missiles. This project will directly reduce the number of nuclear-armed missiles capable of threatening the United States through the proposed use of an integrating contractor who would be responsible for missile, silo, and base elimination, as well as officer housing. This project may be delayed due to a shortage of officer housing. Such housing is an essential part of Ukraine and the other recipient countries' paths to reducing or eliminating their strategic nuclear missile arsenals. The shortage of housing is one of the most serious obstacles to eliminating the weapons and closing bases in these states. The provision of adequate housing is a statutory prerequisite for officers' demobilization in the NIS. Former

strategic forces cannot be dismantled and bases closed until housing is provided for the demobilized missile force officers. These officers live on these bases, and they cannot close until the officers have somewhere to go. I want to emphasize a point that is often misunderstood: The housing would be provided not to improve the NIS officers' quality of life, but to ensure and improve our quality of life by enabling the removal of a threat that has confronted and frightened the American people for nearly four decades.

#### *Program Accomplishments*

The CTR program has accomplished a lot in the three short years of its existence, and the bulk of the achievements have been in just the past year. The program has contributed to the return to Russia of over 1,000 warheads from Belarus, Kazakhstan, and Ukraine; the removal to secure storage of over 2,500 warheads from missile and bomber bases; the deactivation of four regiments of SS-19 ICBMs in Ukraine; the removal of 750 missiles from their launchers; and the elimination of approximately 575 launchers and bombers throughout the NIS. CTR assistance also helped prompt Ukraine to begin early deactivation and shipment to Russia of SS-19 and SS-24 warheads and to accede to the Nuclear Non-Proliferation Treaty as a non-nuclear-weapons state, thereby allowing START to enter into force.

CTR has contributed to additional proliferation prevention efforts. Over 5,000 former Soviet weapon scientists and engineers once engaged in nuclear weapons research are now or soon will be employed on peaceful, civilian research projects, thus reducing the threat of the transfer of their deadly expertise to potential proliferant states. The Project Sapphire mission in November 1994 to remove 600 kilograms of highly enriched uranium to the United States from poorly secured storage in Kazakhstan was partially funded through CTR.

The CTR program's obligation rate during the past fiscal year is another success story. As you know, the program got off to a slow start, mainly resulting from the time it takes to obtain bilateral agreements and the often difficult task of getting the recipient governments to specify technical requirements sufficient for soliciting goods and services from U.S. businesses. But at the end of FY94 the obligation rate had increased four-fold over what it had been at the end of FY93, and we expect obligations at the end of the current fiscal year to be at least six-and-a-half times what they were at the end of FY93. This represents a remarkable achievement programmatically, reflected in the actual

accomplishments in threat reduction in the new independent states, as recounted above.

#### *Future Priorities*

In spite of the progress made by the CTR program in all areas of threat reduction, a great deal of additional work still needs to be done. The major priorities for the current fiscal year and for the years covered by the multiyear Program Plan fall into two main categories: Destruction/Dismantlement and Chain of Custody.

The CTR program will continue to provide Russia, Belarus, Kazakhstan, and Ukraine destruction and dismantlement assistance directed toward accelerating strategic offensive arms elimination. CTR assistance is used to facilitate ongoing deactivation and dismantlement of strategic nuclear systems--missiles, launchers such as silos, heavy bombers, and missile-carrying submarines--according to START I and the January 1994 U.S.-Russian-Ukrainian Trilateral Accord and will facilitate and accelerate elimination of strategic delivery systems provided for under START II.

The CTR program will also continue to provide assistance to enhance the safety and security of nuclear materials with emphasis on strengthening the entire chain of custody--from eliminating and dismantling the weapons, to assisting the design and construction of a plutonium storage facility, to monitoring the storage of the plutonium. Plans call for CTR assistance, in cooperation with the Russian Ministry of Defense, to strengthen the regime of weapons security and control.

Another key CTR project involves our assisting Russian efforts to destroy the 40,000 metric tons of declared chemical weapons agent Russia inherited from the Soviet Union. Without substantial technical and monetary assistance from the United States and other countries, Russia will have difficulty complying with the CWC destruction schedules. Through the CTR program, the United States, beginning with an integrating contractor who is already in place, and who is developing the comprehensive plan, intends to assist in the design and construction of a prototype nerve-agent-filled artillery munition destruction facility, as well as provide the Russian chemical weapons destruction effort with an infusion of U.S. technology and expertise where it is needed.

We will also continue to help demilitarize the nuclear infrastructure which supported the massive Soviet weapons of mass destruction arsenal. Nuclear infrastructure demilitarization will allow existing personnel, resources, and the supporting technical



and industrial base to be reoriented toward peaceful pursuits. Industrial partnerships remain an important element of this effort, and management of these activities will transition to the Defense Enterprise Fund in FY96. After FY97 the Fund is planned to be self-sufficient and able to finance defense conversion efforts through its own resources.

#### Conclusion

I will conclude my remarks on the CTR program by reminding you that the United States spent many billions--some say trillions--of dollars during the Cold War to defend against the Soviet Union's weapons of mass destruction. The CTR program exists on a significantly smaller scale, but the payoff is tremendous; and the results, unlike deterrence, are tangible, observable, and even, in some cases, immediate. I believe you will agree that with the tightening of the program's management and focus engendered by the CTR Program Office, the multiyear planning process, and the integrating contractor approach, the benefits will have an even greater impact compared to the costs in the future.

The CTR program has already made substantial progress in reducing threats from these weapons and in preventing the emergence of new threats in the post-Cold War world. As Secretary Perry has said, the CTR program removes these threats missile by missile, warhead by warhead, factory by factory, and person by person. It is, to quote the Secretary, "defense by other means," and, in these times of increased competition for scarce resources, it is an opportunity for enhancing our security we cannot afford to miss.

## HAROLD P. SMITH, JR.

As Assistant to the Secretary of Defense for Atomic Energy, Dr. Smith is responsible for the planning, modernization, security, and survivability of the nuclear stockpile. He oversees programs for chemical and biological defense, destruction of chemical weapons, acquisition of counterproliferation technology, and management of arms control treaties. The Defense Nuclear Agency and the On-Site Inspection Agency report to him. Dr. Smith also has the responsibility for implementing programs for the safe and secure dismantlement of weapons of mass destruction of the former Soviet Union. In addition, Dr. Smith chairs the NATO Senior Level Weapons Protection Group (SLWPG) that ensures the security and survivability of NATO's nuclear forces and advises alliance ministers on matters of nuclear protection.

Dr. Smith was the president of the Falmer Smith Corporation, a consulting firm that specializes in the management of high technology programs for aerospace and defense contractors. Dr. Smith was also a founder and director of Swerling, Manasse & Smith, Inc., a Los Angeles firm that analyzes recent advances in radar systems.

Since 1968, Dr. Smith has served as a consultant and advisor to the Office of the Secretary of Defense, the Office of the Secretary of the Air Force, and the Armed Services Committees of the U.S. Senate and the U.S. House of Representatives. He has advised on matters of national security policy, giving particular emphasis to projects requiring a broad range of technical and managerial skills. As a member of the Air Force Scientific Advisory Board, he has chaired the Tactical Advisory Panel and has directed studies ranging from improved operational testing of complex weapon systems to development of modern munitions. For the Defense Science Board, he has chaired task forces concentrating on the vulnerability of strategic systems. He has been a member of the Defense Sciences Advisory Board for the Lawrence Livermore National Laboratory and the Heinz/Wirth Task Force on Defense Spending, the Economy, and the Nation's Security.

From 1960-1976, Dr. Smith was a member of the faculty of the University of California and published over 50 papers on the optimal control of exotic nuclear systems and on the interaction of radiation with surfaces. For his sabbatical year in 1966, Dr. Smith was awarded a White House Fellowship and was assigned as a Special Assistant to the Secretary of Defense.

Dr. Smith received all his degrees from the Massachusetts Institute of Technology: a Bachelor of Science in Mechanical Engineering in 1957, a Master of Science in Nuclear Engineering in 1958, and a Ph.D. in Nuclear Engineering in 1960. He held a Sloan National Scholarship as an undergraduate and a Nuclear Technology Fellowship as a graduate student. Dr. Smith was an honor initiate of Tau Beta Pi and a member of Sigma Xi.

Dr. Smith is a Fellow of the American Physical Society and has twice received the Exceptional Civilian Service Award of the Air Force and the Commendation of the Secretary of the Navy. He has been a member of the National Academy of Science Committee on Undersea Warfare and has served on the editorial board of the Journal of Defense Research. He is a senior member of the Institute of Electrical and Electronics Engineers. In addition to technical papers, he has published articles of public interest, related to national security, in The New York Times and the Christian Science Monitor.

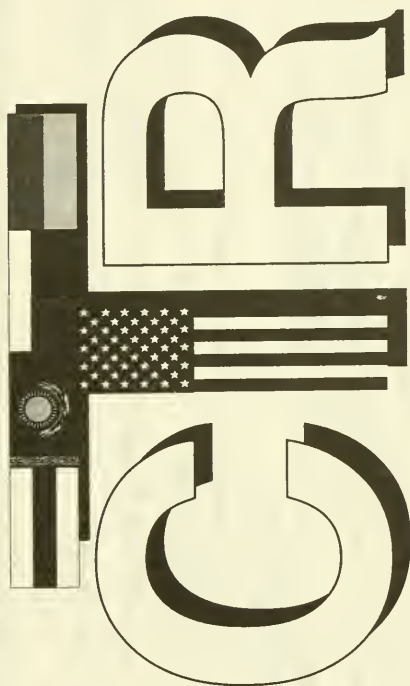
Dr. Smith was born in Greensburg, Pennsylvania, in 1935. He and his wife, the former Marian Bamford, and their three children have resided in California since 1960.

**John E. Herbst**

John Edward Herbst is currently the Deputy Coordinator for the Newly Independent States. Prior to that he served as Director of the Office of Independent States and Commonwealth Affairs, Director of the Office of Regional Affairs in the Near East Asia Bureau, Political Counselor at the American Embassy in Tel Aviv, Deputy Director for Economics in the Office of Soviet Union Affairs, and Director for Policy at the National Security Council. He has also worked at our embassies in Moscow and Saudi Arabia. Herbst has a BSFS from the Georgetown School of Foreign Service and an MALD from the Fletcher School of Law and Diplomacy. He is married with five children.



# COOPERATIVE THREAT REDUCTION JUNN . LUGAR



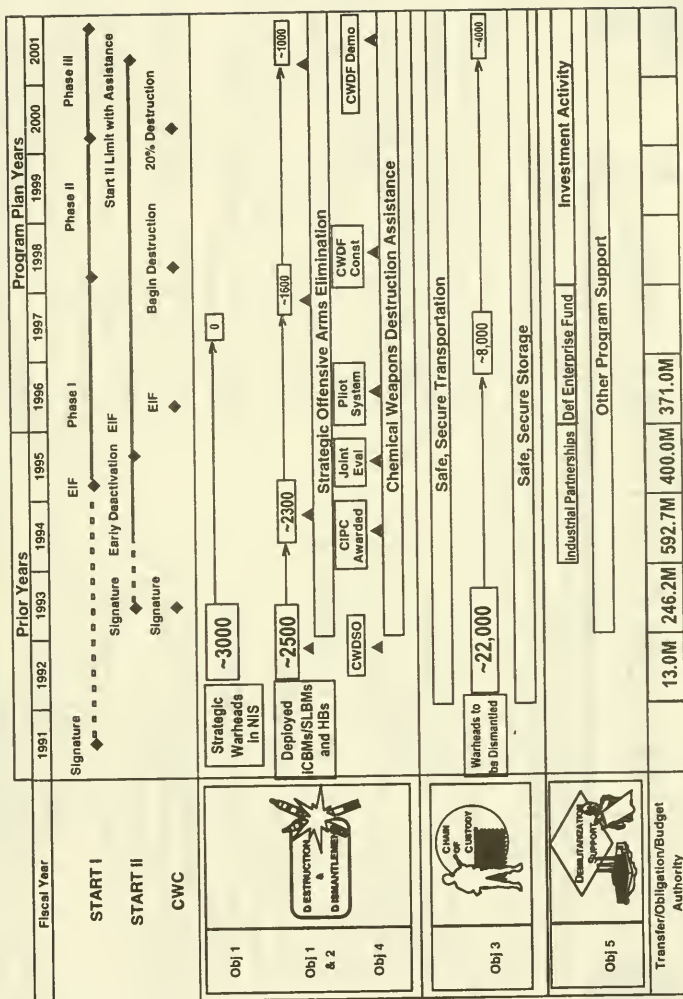


## PROGRAM OBJECTIVES

1. Assist Ukraine, Belarus, and Kazakhstan in becoming non-nuclear
2. Assist Russia in strategic arms reduction to START levels by 2001
3. Enhance security and control of fissile material and nuclear weapons in Russia by:
  - A. Assisting in centralizing fissile material storage; and
  - B. Strengthening chain of custody for nuclear weapons
4. Initiate and accelerate Russian chemical weapons destruction
5. Encourage the demilitarization of Ukraine, Belarus, Kazakhstan and Russia by:
  - A. Supporting conversion of NIS defense enterprises; and
  - B. Expanding defense and military-to-military contacts



# PROGRAM OVERVIEW





# MAJOR CONTRIBUTIONS



## CTR has assisted or influenced these developments:

### Objective 1: Assist Ukraine, Belarus, and

- Kazakhstan in becoming non-nuclear states*
- Withdrawal of over 1,000 strategic warheads to Russia from other NIS republics
- Ukrainian decision to denuclearize and accede to the NPT
- Deactivation of 46 SS-24 and 40 SS-19 ICBMs in Ukraine
- Purchase and transfer of 600kg of HEU from Kazakhstan to US
- Commenced removal of SS-18 missiles from Kazakhstan
- Safe and Secure Withdrawal of 18 of 54 SS-25 ICBMs and launchers from Belarus to Russia
- Treaty communication links in place

### Objective 3: Enhance security and control of fissile material and nuclear weapons in Russia by:

- Installation of security and safety enhancements to Russian nuclear weapons transport railcars
- Improved MC&A measures to safeguard fissile material
- Preliminary design of fissile material storage facility
- Delivered armored blankets for enhanced safety of nuclear weapons

### Objective 4: Initiate and accelerate Russian chemical weapons destruction

- CWDSO established in Moscow
- Procured U.S. prime contractor to plan for CW destruction
- Joint evaluation of Russian CW neutralization technology begun

### Objective 2: Assist Russia in strategic arms reduction to START levels by 2001

- Removal of over 1,000 strategic warheads from deployed systems
- Elimination of 212 SLBM launchers, 378 ICBM silos, about 25 heavy bombers and 1,331 missiles

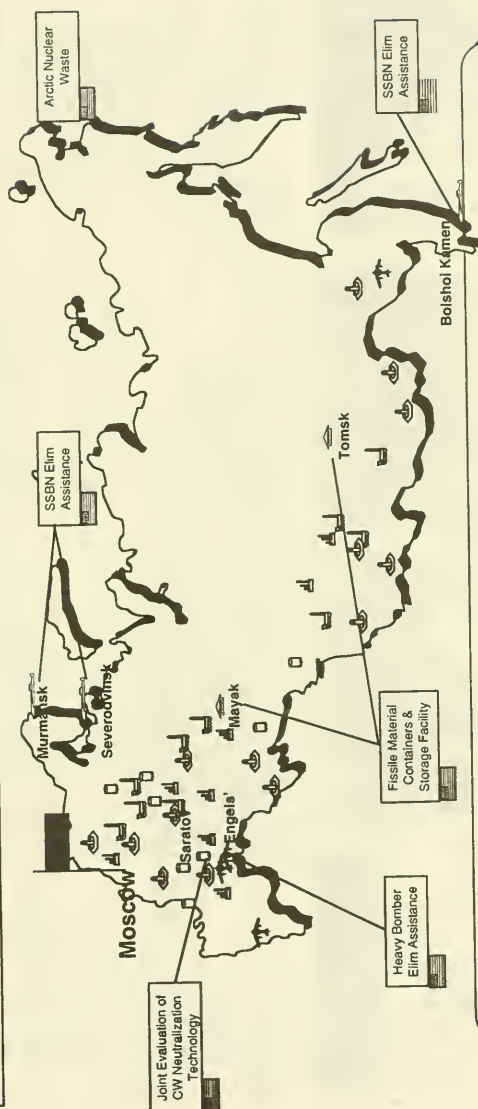
### Objective 5: Encourage the demilitarization of Ukraine, Belarus, Kazakhstan, and Russia

- Twelve projects to convert NIS WMD factories to civilian production
- Re-employment of 4000 NIS WMD scientists
- Sponsored 116 joint events between NIS armed forces and U.S.





# RUSSIA



## US CTR Program Actions

- Over **\$470 Million** committed under eleven implementing agreements and one MOU
- Installation of security and safety enhancements to Russian **nuclear weapons transport railcars**
- Improved measures to **safeguard fissile material**
- Joint evaluation of **Russian CW neutralization technology** begun
- Selected US prime contractor to plan for **CW destruction**
- International Science and Technology Center (ISTC) in Moscow is in operation, eventually re-employing **4000** scientists
- Supported the establishment of a facility at Elektrostal to model complete **control systems for fissile material**
- Funded the **Arctic Nuclear Waste Assessment Program** to assess the effects of Russian nuclear waste disposal in the Arctic
- **4** contracts awarded to U.S. firms to **convert WMD factories** to civilian production
- About **80** mil to mil contacts

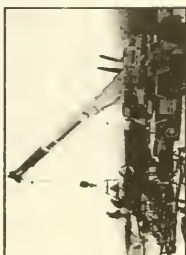


# RUSSIA

ASSIST RUSSIA IN STRATEGIC ARMS REDUCTIONS  
TO START GOALS BY 2001



## Heavy Bombers



Equipment, initial spares, and training to cut steel and aluminum sheet:

- 15-20 MT truck mounted, mobile cranes (diesel) (2)
- Tractors (diesel) w/trailers (2)
- Wheel loader (2)
- Firetruck (diesel) (3), fire fighting gear (3 sets)
- Hydraulic shears w/ excavator base (2)
- Universal hydraulic tools (4 sets)
- Abrasive grinding wheels (50)
- Diamond cutting blades (50)
- Flat-plate guillotines (2)
- Dump trucks (diesel) (2)
- Balers (2)

## Submarines



Equipment, initial spares, and training to cut thick submarine hull sections, shred marine cable, and reduce scrap:

- Hydraulic shears w/ excavator base to cut submarine pressure hulls (6)
- Hydraulic guillotine cutters to reduce scrap (3)
- Cranes (3)
- Plasma cutters (6)
- Oxyacetylene torches (60)
- Cable shredders (3)
- Portable filter and ventilation equipment for removal of contaminants (60)
- Welder's protective clothing w/air-fed hoods (60 each)

## ICBM Silos



Equipment, initial spares and training to cut thick metal and restore silo site

- Plasma cutters (4)
- Bulldozers (diesel), 360-400 HP (4)
- 60 MT capacity wheeled, mobile cranes (diesel) (4)
- Electric drills (4), bits (100)
- Cutoff saws, electric (4)
- Abrasive grinding wheels (50)
- Diamond cutting blades (50)
- Electric impact wrenches (4) w/deep sockets

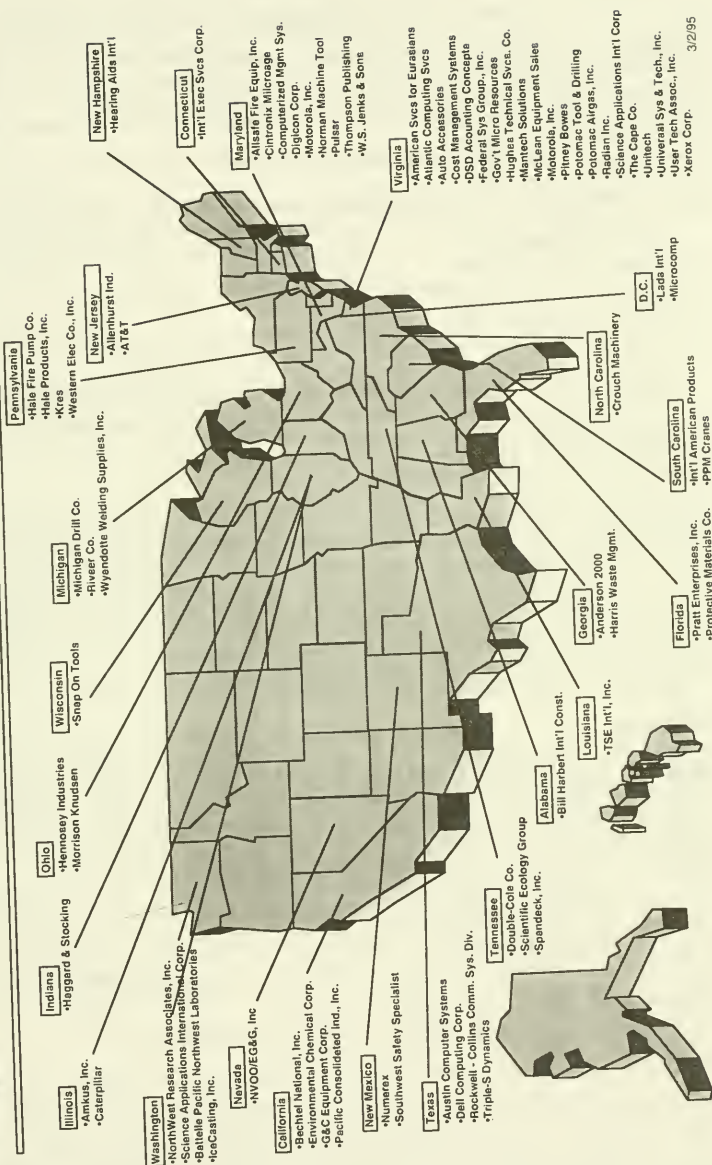
## Missiles



Contractor assistance to dispose of up to 30,000 MT of liquid propellant (UDMH)

- Equipment and material to transport and temporarily store propellant:
- Intermodal tank containers (214 oxidizer, 326 fuel)
- Railroad flatcars (100)
- 58 MT capacity cranes (7)
- Missile elimination
- Balers for liquid SLBM and ICBM airframe destruction
- Solid rocket motor elimination facility (planned)

# US INDUSTRY Supporting CTR



3/2/95

## QUESTIONS FOR THE RECORD SUBMITTED TO AMBASSADOR THOMAS SIMONS

## CRITERIA GOVERNING THE PROVISION OF U.S. ASSISTANCE

*Question 1. Ineligibility requirements:* The FREEDOM Support Act of October, 1992 which provides the guidelines governing our assistance to the NIS countries, has specific ineligibility requirements for U.S. assistance. The Act states in Sec. 489(A) (b) that the President "shall not provide assistance" to the government of any independent state that:

- engages in a consistent pattern of gross violations of internationally recognized human rights;
  - knowingly transfers to another country missiles or missile technology inconsistent with the Missile Technology Control Regime or any material or technology that can contribute to the ability of such a country to develop any weapon of mass destruction; or
  - fails to effectively implement applicable arms control agreements signed by the former Soviet Union.
- Would you say right now, under current circumstances, that Russia and other NIS meet these criteria in the FREEDOM Support Act?
- How does the war in Chechnya track with FREEDOM Support Act criteria?
- How about the sale of nuclear reactors to Iran?—How about Russian reluctance to abide by Conventional Forces in Europe Treaty force and equipment limitations in the north Caucasus and the Baltic region?

Would you say right now, under current circumstances, that Russia and other NIS meet these criteria in the Freedom Support Act?

Answer. Yes, the HIS, including Russia, do currently meet the criteria in the Freedom Support Act. Specifically, no country in the HIS engages in a consistent pattern of gross violations of internationally recognized human rights; no country in the HIS knowingly transfers to another country missiles or missile technology inconsistent with the Missile Technology Control Regime or any material or technology that can contribute to the ability of such a country to develop any weapon of mass destruction; and no country in the NIS is failing to take constructive actions to facilitate the effective implementation of applicable arms control obligations derived from agreements by the former Soviet Union.

*Question 2. How does the war in Chechnya track with Freedom Support Act criteria?*

Answer. As noted in the previous question, Russia does not engage in a consistent pattern of gross violations of internationally recognized human rights. However, the State Department's 1994 Country Report on Human Rights Practices in Russia states that Russian actions in Chechnya "were in conflict with a number of Russia's international obligations, including those concerning the protection of civilian non-combatants and notification of troop movements." We also noted that Russia "utilized disproportionate force and inflicted heavy civilian casualties."

We have made our position clear on Chechnya. As the Secretary of State said last week in Geneva, Russia's military action in Chechnya was "foolhardy" and "tragically wrong." We have taken every possible opportunity to urge the Russians to ensure unencumbered access for international relief organizations and to establish an immediate humanitarian cease-fire followed by negotiations for a political settlement. We strongly support the early deployment of a long-term OSCE mission and OSCE involvement in the political settlement.

*Question 3. How does the sale of Russian reactors to Iran track with Freedom Support Act criteria?*

Answer. According to section 498A(b) of the Freedom Support Act, Russia would be ineligible for assistance if the President determined that, after October 24, 1992, the Government of Russia "knowingly transferred to another country . . . any material, equipment, or technology that would contribute significantly to the ability of such country to manufacture any weapon of mass destruction (including nuclear, chemical, and biological weapons) if the President determines that the material, equipment, or technology was to be used by such country in the manufacture of such weapon."

This criteria does not currently apply to Russia based on the information available to us. The criteria applies when the President determines that a country "has knowingly transferred" the relevant material, equipment, or technology, and when the other criteria are met. Until a "transfer" is found to have taken place, there is no basis for applying this sanction. Russia may never actually "transfer" any nuclear items to Iran, either because it is persuaded to cancel the agreement on non-proliferation grounds, or because it decides that Iran will never be able to pay for the reactors.



We will thoroughly evaluate the activities of both Russia and Iran if and when a transfer of Russian nuclear equipment, material, or technology actually occurs. The evaluation of the transfer under 498A(b) will include all of the criteria established in that section, including whether the items transferred by Russia are to be used by Iran in the "manufacture" of nuclear weapons.

**Question 4.** How about Russian reluctance to abide by the Conventional Forces in Europe Treaty force and equipment limitations in the north Caucasus and the Baltic region?

Answer. Russia is currently engaged in discussions with its CFE Treaty partners regarding its desire to deploy more Treaty-limited equipment in the Treaty's flank zones than the Treaty permits. Russia has pressed this point, including at the highest levels, stating that the flank limits unduly restrict Russia's ability to meet its perceived defense planning requirements.

The CFE Treaty's equipment limits, including the flank zone limits, take effect in November, 1995. Until that time, the Treaty does not restrict Russian (or other) deployments in the flank regions. Russian authorities, including at the highest levels, have underscored their commitment to the CFE Treaty. Russia has, moreover, completed the reduction of thousands of pieces of military equipment in accordance with its CFE Treaty obligations.

We have conveyed to the Russians our expectation that they will be in full compliance with all of the CFE Treaty's equipment limits by November, 1995.

**Question 5.** Eligibility requirements: The FREEDOM Support Act also lists eligibility requirements in Sec. 498A (a), that "the President shall take into account not only relative need but the extent to which the independent state" meets 11 criteria spelled out in law.

Criterion #3 to be taken into account in providing assistance is whether the country is respecting internationally recognized human rights, including the rights of minorities and the rights of freedom of religion and emigration;

- Which NIS states are in compliance with this criterion?
- Are the rights of ethnic and religious minorities respected in Russia?
- Have Russian troops in Chechnya shown respect for internationally-recognized human rights?
- Are the rights of Russian minorities in other NIS countries being respected?
- Where do you have your biggest concerns about the treatment of Russian minorities?
- Are there any instances in the NIS where you feel the right to freedom of religion is in jeopardy?

Answer. All the NIS states, including Russia, by and large respect internationally recognized human rights, including the freedom of religion and emigration, and respect the rights of ethnic and religious minorities. Likewise, the rights of Russian minorities have generally been observed throughout the rest of the NIS. There are no instances in the NIS where we feel the right to freedom of religion is in jeopardy.

However, as noted in a previous question on Chechnya, the State Department's 1994 Country Report on Human Rights in Russia states that Russian actions in Chechnya "were in conflict with a number of Russia's international obligations, including those concerning the protection of civilian noncombatants and notification of troop movements." We also noted that Russia "utilized disproportionate force and inflicted heavy civilian casualties."

We have conveyed our concerns repeatedly to Russian officials in Washington, Moscow, and in OSCE discussions in Vienna. We have also consistently made clear that the United States supports the principles embodied in the Helsinki Charter and other international documents embodying standards of behavior with respect to human rights and political liberties.

We have urged the parties to respect fully the Geneva Conventions on the Protection of the Victims of Armed Conflict and its Protocol II of 1977 on internal armed conflicts. Both agreements, which apply to the situation in Chechnya, provide a variety of protections, including that persons taking no active part in hostilities must be treated humanely. Protocol II requires that civilians not be made the object of attacks.

We hold all concerned to the same standards of international humanitarian law.

**Question 6.** Criterion #4 to be taken into account in providing assistance is whether a country is respecting international law and obligations and adhering to the Helsinki Final Act of the Conference on Security and Cooperation in Europe and the Charter of Paris, including the obligations to refrain from the threat or use of force and settle disputes peacefully;

- Are all NIS countries in compliance with this criterion for assistance?
- Given what is happening in Chechnya, how can you say Russia is in compliance?

Criterion #5 to be taken into account in providing assistance' is whether a country is cooperating in seeking peaceful resolution of ethnic and regional conflicts.

—Are Russia, Georgia, Azerbaijan, Armenia, Moldova, Tajikistan, and Uzbekistan in compliance with this provision in dealing with their internal conflicts?

Answer. The Government of Russia has repeatedly pledged, both publicly and privately, to support all OSCE principles, including territorial integrity, national sovereignty, non-use of force and peaceful settlement of disputes.

We believe that Russia's acceptance of such an OSCE role in Chechnya would help facilitate Russia's full compliance with its OSCE commitments, including the Code of Conduct. During a March 13–15 meeting to review implementation of OSCE confidence- and security-building measures over the past year, OSCE states engaged in an in-depth dialogue with Russian representatives about Chechnya. The U.S. and other OSCE members again urged Russia to provide the notifications on troop movements in Chechnya we believe necessary pursuant to the Vienna document 1994.

We are encouraged that Russia has accepted a long-term OSCE presence in Chechnya. An OSCE delegation that included one American representative travelled to Moscow and the Chechnya region the week of March 20–25 on a fact-finding mission. This was the first time an outside group was allowed in Chechnya and did the groundwork for the Russians to accept an OSCE assistance group or work on human rights issues there. We continue to believe that Russia should use the Code of Conduct as a positive tool for meeting its international commitments, especially with respect to treatment of civilian populations during a conflict. We have stated our concerns on numerous occasions regarding the excessive and indiscriminate use of force against civilians in Chechnya and the importance of allowing unencumbered access to international relief organizations.

In Georgia, a Russian peacekeeping force nominally under control of the CIS has been in place near Abkhazia since June 1994. Chairman Shevardnadze is committed to the peaceful resolution of conflicts and meeting Georgia's obligations under the Helsinki Final Act. Political discussions under UN auspices were renewed in Geneva February 7–9; however, we do not expect any major breakthroughs in the near future.

Azerbaijan and Armenia continue to work on a negotiated settlement to the Nagorno-Karabakh conflict within the OSCE's Minsk Group. The OSCE is also working on establishing an international peacekeeping force for the region.

We have been working constructively with the Moldovan government and within the OSCE to promote a peaceful, negotiated settlement to the Transdnister separatist dispute. Moldova's willingness to devolve a significant measure of authority to that region, while at the same time preserving the unity and territorial integrity of Moldova, provides an invaluable contribution to the peaceful process of reconciliation.

The Government of Tajikistan is participating, along with the Tajik opposition, in UN-mediated peace talks aimed at bringing an end to that country's civil conflict. The talks began in early 1994, have proceeded through three rounds, and have resulted in a cease-fire, which remains in effect, and a prisoner exchange. A joint commission of the Tajikistan Government and opposition monitors the cease-fire along with UN observers.

The Government of Uzbekistan neither orchestrates nor condones acts of violence directed at particular ethnic groups. There is no internal conflict in Uzbekistan.

**Question 7.** Criterion #7 to be taken into account in providing assistance is whether a country is taking constructive actions to protect the international environment, prevent significant transborder pollution, and promote sustainable use of natural resources.

—Which NIS countries are taking environmental degradation seriously and doing something about it?

—Given the various priorities of the NIS countries, are there any instances you can cite in which concrete actions are being taken to deal with environmental problems?

—Where have actions been taken to enhance nuclear safety?

Answer. With Georgia and Tajikistan experiencing civil strife, these two countries are doing less than the other New Independent States to improve their environments.

Although constrained by lack of funding, the NIS countries are grappling with environmental problems. Russia, for example, is convening an All-Russian Congress on Environment and Sustainable Development in Moscow June 3–5. In preparation for that conference, the Government of Russia drafted a Concept Paper on its Transition to a Sustainable Development Model. On February 4, 1995, President Yeltsin issued a decree for protecting the environment and ensuring sustainable development. In an effort to promote regional cooperation, the five Central Asian Repub-

lics—Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan, and Uzbekistan—have established an Interstate Coordination Council for Saving the Aral Sea (ICC). This organization meets on an annual basis; the most recent meeting was held in March 1995. With USAID assistance, potable water projects are underway in Kazakhstan and Turkmenistan. Several NIS countries, from Azerbaijan to Russia, have requested information about U.S. anti-pollution legislation. Both Russia and Ukraine are working to implement their bilateral agreements on environmental cooperation with the U.S., and Kazakhstan is in the process of concluding a similar agreement with the U.S. In addition, Armenia, Russia, and Uzbekistan have ratified the UN Framework Convention on Climate Change.

Through the multilateral Nuclear Safety Account, the U.S. is actively engaged with the governments of Russia and Ukraine to improve nuclear safety at plants which fail to meet internationally-acceptable safety standards, especially at Kola, Kursk, and Novovoronezh in Russia and at Zaporozhye in Ukraine. The U.S. is also working to prevent the reopening of nuclear power plants which fail to meet international standards, such as the Medzamore plant in Armenia, which is located in an earthquake zone. In addition, the U.S. is working with Armenia, Kazakhstan, Russia, and Ukraine to improve regulation of their nuclear industries.

**Question 8.** Criterion #11, the final criterion, to be taken into account in providing assistance is whether a country is terminating support for the communist regime in Cuba, including removal of troops, closing of military facilities, and ceasing trade subsidies and economic, nuclear, and other assistance.

- Are Russia and all other HIS countries terminating such support for Cuba?
- Has Russia removed all its troops from Cuba?
- What former Soviet military facilities in Cuba are closed and what facilities remain open?
- Does Cuba today receive any subsidies from Russia?
- Has all economic and other assistance to Cuba from Russia been terminated?
- Is Russia providing any assistance for a nuclear facility in Cuba?
- Is Russia providing any payment or subsidy to Cuba in return for the use of the Lourdes listening station?

**Answer.** In 1991, Moscow decided to end its 54 billion dollar a year subsidy of the Cuban economy. In 1992, Russia halted construction of the Juragua nuclear power plant near Cienfuegos, Cuba. In 1993, Russia withdrew its last remaining combat troops from Cuba. In April 1994, the Administration certified to Congress that Russia had not provided assistance to Cuba over the previous eighteen months. Russian officials continue to assure us that all trade is conducted on a commercial basis.

The two major aspects of Russian-Cuban economic interaction are the oil-for-sugar barter arrangement and Russian rent payments to Cuba for use of the Lourdes signals intelligence facility. The oil-for-sugar barter is basically an agreement to exchange certain quantities of Cuban sugar for Russian oil. Following a visit to Cuba, Russian Chief of the General Staff Kolesnikov announced that Russia would provide Cuba with \$200 million in goods for Lourdes rent in 1995.

## II. ASSISTANCE PROGRAMS

**Question 1.** For how many years will you need an assistance program in the HIS?  
—When can you begin to phase out major recipients such as Russia?

**Answer.** This assistance program is transitional by design and as such we expect to begin to phase out of technical assistance to Russia in FY98. That will be the last year for new requests for technical assistance funding for Russia. The requests for last funds for technical assistance for the other HIS will come within a very few years thereafter.

**Question 2.** How do you evaluate the success of U.S.-funded democracy programs?  
—What have been the results of programs with NDI, IRI, Internews, and the Rule of Law Consortia?

—How do you measure success or failure?

**Answer.** Two agencies in particular have implemented our democracy programs in the NIS: USIA and USAID. Broadly speaking, we have two mechanisms to support the development of democratic institutions: targeted technical assistance to help build a democratic infrastructure, and training and exchange programs to facilitate the transfer of experience, skills, and knowledge. Technical assistance is mainly the responsibility of USAID and can produce some tangible results in the near term; exchange programs are managed primarily by USIA and are designed to produce more benefits in the long-term.

The political party institutes, NDI and IRI, have contributed significantly to the success of our democracy programs in the NIS. Many of the politicians, civic activ-



ists, college students, and others who have received training or attended seminars provided by grantees such as IRI and NDI have expressed their conviction that such assistance has been extremely beneficial to democratic transitions taking place in their countries. For example, women who attended IRI's "Women in Politics" seminars in three Russian cities subsequently formed political and/or business organizations in their towns. A Ukrainian civic organization, established with assistance from NDI, coordinated a national election monitoring program involving more than 1500 volunteers to monitor last year's presidential elections, which, as you know, ushered in a new era of political reform in Ukraine.

The results of our democracy program in the NIS must be considered in the context of a process of democratic transition. We are measuring the success of this program in people's increased understanding and demand for democratic ideals. The emerging generation in these countries is increasingly understanding, demanding, and depending on the key principles of democracy, such as independent media, freedom of association, the right to a fair trial, and transparent and accountable political institutions.

Media programs have been one of the major success stories of the U.S. assistance effort in the NIS. These programs have provided equipment, training and production help to dozens of struggling independent television stations in smaller cities across the former Soviet Union. In recent months, many of these stations have served their audiences as the only available source of reliable news about the conflict in Chechnya.

We gauge the success of our assistance to independent media by the availability of objective sources of information to the citizens of a country, allowing them to participate effectively in the democratic process. In a relatively short period of time the rule-of-law program has been able to establish solid collaborative reform programs with key legal institutions in the HIS that embrace the democratic process. At present, the USG has ongoing institution-building programs with the parliaments, the courts and the executive branches of several key countries, namely, Russia, Ukraine, Kazakhstan and Kyrgyzstan, and is working with other countries in various targeted areas.

While the Rule of Law initiative is still relatively young and is just beginning to bear fruit, examples of some of our programmatic successes include:

- on-going work related to the successful and expanding jury trial project, including the production and wide dissemination of new training materials and videos for jurors, judges and prosecutors;
  - the creation and implementation of the first indigenous judicial training programs for commercial law judges in Russia, Ukraine, Kyrgyzstan and Kazakhstan;
  - support for the development of model commercial laws and civil codes through interparliamentary mechanisms—Parts 1 and 2 of the entire Model Civil Code (each countries' economic blueprint for a market-based democracy) will be completed in April 1995 [When adopted and/or amended and passed by each respective country, these laws will provide the core legal underpinnings necessary to support economic development, trade and investment—Russia and Kazakhstan have already passed Part 1];
  - the launching of new training programs for prosecutors in Russia, Ukraine, and Kazakhstan [This initiative will enable prosecutors to work together with their U.S. and European counterparts to fight organized and white collar crime more efficiently and effectively within the context of new constitutional structures and individual safeguards]; and
  - the establishment of indigenous NGOs, such as public law clinics and human rights organizations (Sakharov Center in Moscow), that will serve to promote and protect the rights of individuals and non-governmental institutions through legal means.
- We believe our democracy programs have already accomplished much. However, in part because many of these projects were designed several years ago, the Department is initiating a thorough review of them to ensure that they have adapted themselves to developments, and that they carry out our foreign policy objectives in the most efficient manner possible.

**Question 3.** The Russian media have played an important role speaking out on the Chechnya conflict. To what extent have AID-supported media organizations played that role?

**Answer.** A far-flung group of independent local stations, supported under a grant to Internews, has played a central role in bringing Chechnya before the eyes of the Russian public.

In contrast to the more pro-government approach taken by the State-supported Qstankino television in its coverage of the conflict, the independent NTV (not sup-



ported by USAID) has provided comprehensive, objective coverage. NTV, however, is unavailable in large sections of Russia, especially east of the Urals.

It is in many of the provincial areas not reached by NTV where Internews has concentrated its media development efforts over the past three years. With their news ability enhanced by the Internews assistance, the local stations in these areas have been instrumental in keeping the public informed about Chechnya.

—Of 28 client stations recently contacted by Internews, 16 reported that they cover Chechnya either with their own material or through news agencies.

—Some stations focus upon the effects of the conflict in the viewers' region.

—Stations receiving Internews assistance in the important regional centers of Yekaterinburg, Irkutsk, Soligorsk and Petrozavodsk are the only local stations covering Chechnya.

—The Internews-supported station in Kaluga was the first in the country to show coffins returning—at a time when the Yeltsin administration was down-playing casualties.

—While Moscow was insisting that the conflict was not creating a drag on the budget, the Kaluga station quoted the local governor as saying that the government had told him he would not get the eight billion rubles owed his region because of costs associated with Chechnya.

*Question 4.* How do you assess the success of exchange programs?

—Which exchanges have worked, which have not?

—Which age level exchanges have the most impact?

- Post-graduate?
- College
- Or High School?

Answer. Evaluating the impact of long-term exchanges is one of the more difficult program issues we face. Often the impact of an academic or long-term exchange is not evident for some years after the program. Nevertheless, USIA has begun to evaluate the effectiveness of FREEDOM Support Act programs by conducting both attitude and impact research during the exchange visit and after participants have returned to their countries. Currently USIA is carrying out a survey of Russian exchange program participants here in the United States on undergraduate, graduate, and professional programs, through a contract with an American opinion research firm. Results are expected in July 1995. Another research firm conducted five focus groups in February and March 1995 in Moscow, St. Petersburg, and Nizhniy Novgorod with academic and professional exchange participants and interns from the "Business for Russian" program. A report and supporting data are due from the contractor in May 1995. USIA is also promoting the formation of alumni groups as one method of tracking participants as they progress in their careers. USIA also conducts reviews during the life of its program through site visits by USIA staff and outside evaluators.

As a condition of award of grant, USIA requires grantee organizations to undertake program evaluation. For example, in March 1995 USIA convoked the grantees in its "Federalism Program" to discuss such issues as program duplication, effective networking and resource sharing, and evaluation. This was done before grant work commenced to insure coordination and encourage linkages among U.S. grantees and with all program sites in Russia.

We believe that our FSA-funded programs contribute to U.S. national policy objectives in the New Independent States. USIA has developed a range of programs for high school, undergraduate and graduate students, professionals, government officials, legislators, and business people. Candidate selection is national in scope and merit-based. Nearly two-thirds of FSA international visitors from Russia live and work outside the Moscow region. We also stress the formation of institutional linkages at all levels and promote the use of new information technologies to broaden and continue wherever possible a range of contact between individuals and institutions in the NIS and their American counterparts.

All of these exchanges develop from USIA's extensive experience in designing and administering successful exchanges and an understanding of the specific needs of programs with Russia and the NIS. We closely monitor programs underway and make changes as necessary. While thus far these have been mostly minor adjustments, we will undertake significant changes or discontinue a program if it does not operate effectively and economically. For example, we discontinued funding for one of our teacher exchange programs. In this instance, recruitment of candidates did not produce sufficient numbers of participants in our priority fields. Since teachers play a decisive role in forming the opinions and values of tomorrow's leaders and citizens, we are enhancing programming for teachers within the framework of the secondary school exchange initiative.

The nature of the impact varies depending on the age group. We believe that a comprehensive approach to the problem of supporting NIS reform will necessarily include all three levels. Post-graduate and professional exchanges provide current government officials, businessmen, journalists, academics, and other leaders both information and experiences that are immediately applicable to reform in Russia. For example, a short-term exchange program of officials from President Yeltsin's control department (i.e., their OMB) led directly to the establishment of an Inspectors General function within Russian ministries of government. Short-term business interns are returning to Russia with new skills, setting up new enterprises, and some are marketing American products for U.S. companies.

College age participants are at a crucial point in making choices about career paths and the values that will guide them as adults. For them, an exchange experience broadens their world view and exposes them to democratic culture at a pivotal moment in their lives.

Graduate and post-graduate fellows study curricula in fields necessary to political and economic reform, such as public administration, business administration, economics, political science, journalism, and law. In many cases, they return to their—countries ready to assume leadership positions.

An expressed goal of all USIA exchange programs is to provide the skills and experiences needed by the next generation of Russian leaders. The high school exchange program offers Russian and NIS students a life-changing experience at an impressionable age and has resulted in the creation of linkages between U.S. and NIS schools. These partnerships have resulted in joint efforts on projects important to reform, like curriculum development.

**Question 5.** Land privatization has moved forward in Russia at a very slow pace. Why? How are we addressing this problem and what progress can you report?

**Answer.** There is no clear consensus in Russia on the privatization of land. While the country has privatized more than 42 million small plots—garden plots, country-cottage plots and household auxiliary plots—it has moved more slowly on privatizing farm land. Technically, all of the country's collective farms have been transformed into joint stock companies in which the property is collectively by the members of the enterprise and with little change in the management structure. Recent actions by the Russian Government and Duma have made it difficult to withdraw land and property shares from the enterprises to establish family farms.

With limited federal-level support for land privatization, U.S. efforts are focused at the regional level in more than 20 oblasts through land and real estate activities administered by the U.S. Agency for International Development. These activities are to:

- establish a land and real estate information system which will provide the basis for land registration and titling in both urban and rural areas;
- work with municipal administrations to draft regulations to transfer land rights from the municipalities to privatized enterprises and implement marketing strategies for the sale of selected enterprise lands;
- assist privatized collective farms to restructure and break-up to form more efficient, market-oriented units;
- provide training real estate practitioners in support of the development of a real estate market; and
- educate the public local officials on the workings of a private land market and to provide specialized educational materials and programs to facilitate activity replication.

Despite obstacles in Moscow, regional leaders are going ahead with their own land reform efforts. We are confident that models developed at the regional level will eventually spur national-level support for land privatization. In addition, we are coordinating closely with the World Bank to ensure that our respective land privatization programs avoid overlap and duplication.

**Question 6.** Many observers claim that the Chechnya debacle has blown a hole in the Russian budget that would make meeting these targets impossible. Others believe that the costs of Chechnya have been overstated, and at least current costs of Chechnya can be handled within the budget.

What do you see as the budgetary effects of Chechnya, and will they endanger a stand-by with the IMF?

**Answer.** The Russian government has stated that the costs of its activities in Chechnya, including reconstruction expenses, can be contained within the relatively austere budget recently passed into law by the Duma. They estimate these costs will be no more than one percent of GDP, or about \$2 billion.

In negotiating the standby arrangement, the IMF did relax its high standards for fiscal discipline in light of the costs of military operations or reconstruction in

Chechnya. The Russian government has committed itself to seek additional revenues if additional spending, for any purpose, is necessary.

**Question 7.** Is it your goal to expend \$1 billion in 1995 and \$1.5 billion in 1996, raising the expenditure rate to roughly 60% of appropriated funds? Where and how will this money be spent?—With how much confidence do you put these number forward? How do you account for the timing of this expected dramatic rise in expenditure rates?

**Answer.** We do have an objective of reaching these levels of expenditures in FY 95 and 96. Funds will be spent in the core areas of economic and democratic transformation, as well as in grassroots efforts:

- continued privatization efforts to keep momentum going in countries with vigorous programs and to help new reformers to get significant programs going;
- actions to put in place policy, legal and regulatory frameworks essential to market economies, such as capital markets, Securities Exchange Commissions, Bank regulatory mechanisms, commercial law, fiscals and financial reform;
- enterprise funds and other activities to help privatizing and new businesses gain access to capital, build links with U.S. businesses, and learn improved management and business skills;
- exchanges and training programs to bring U.S. values and experience to NIS citizens as well as building specific skills;
- support to non-governmental organizations and local governments to build local capacity to meet local needs and broaden citizen participation in public policy;
- support to democracy building efforts, such as independent media, administration of elections, strengthening parliamentary institutions, and judicial systems;
- Rule of law and anti-crime efforts;
- humanitarian assistance as needed in the Caucasus, Tajikistan or elsewhere.

We are fairly confident that we will see this magnitude of spending, because the program has been building momentum since 1993, and we now have activities in place, with contractors and cooperating grantees on the ground and working in all the areas mentioned above. Expenditures naturally lag behind, while programs are being defined and contractors are being selected, but much of this effort is behind us. Enterprise Funds, which had a slow start, should show accelerated spending this year.

The FY 1994 program level represented a peak assistance year. \$1.8 billion of was obligated during FY 1994 to specific contractors or grantees, or transferred to other USG agencies, and much of this was in the last half of the fiscal year. This compared to \$700 million during FY 1992 and 93 combined. Expenditures for any given technical assistance activity tend to begin in earnest several months after obligation, as contractors get staff in place and begin operating. Since obligations jumped so dramatically in FY 94, expenditures will also follow this pattern, with a lag of several months.

**Question 8.** The enterprise funds have generally been slow in getting off the ground. Why has this been the case? What have you learned about when enterprise funds are useful and when regional economic conditions make their operations difficult?

**Answer.** The U.S.-financed enterprise investment funds—RAEF, FLER, West NIS and Central Asia—are fully operational for less than a year. The West NIS and Central Asia funds have only had offices in country for a few months.

A number of problems have hindered their operations and made it difficult to accelerate investments during the early start-up phase. The lack of clear and consistent investment laws and regulations, confiscatory tax policies, lack of Western accounting standards and uncertain ownership and property rights are problems common to business in all the New Independent States. In Russia, organized crime has presented an especially difficult problem for both investors and investees and required extra care to avoid compromising situations. Added to these problems are the more mundane challenges resulting from a shortage of suitable office space, lack of business services, inadequate communications and, in Russia, difficulties of building business relationships over eleven time zones and vast geographic areas.

The Fund for Large Enterprises in Russia has gotten off to a strong start and is projecting use of all allocated resources, \$100 million, on a dozen or so investment projects by the end of 1995. The Russian-American Enterprise Fund has approved relatively few investments to date but expects to greatly increase the level of transactions in 1995 so that by year's end outstanding commitments are expected to be in the range of \$62–85 million. The RAEF faces special challenges in selecting investment projects because its mandate is to target small businesses and entrepreneurial start-ups. Investment in such small-scale ventures is labor intensive and raises unusual difficulties in performing the required due diligence.



The Central Asian-American Enterprise Fund has approved two investment proposals and will disburse funds for these projects very soon. The West NIS Enterprise Fund expects to make its first investment by early summer.

Our experience with enterprise funds in Eastern and Central Europe is that relatively few investment transactions are completed in the first year as staff begin their networking in the business community, establish procedures for undertaking due diligence, build a portfolio of detailed investment proposals and develop effective approaches to addressing the special challenges described above. But investment activities usually accelerate rapidly thereafter. We have every expectation that this will also be the case with the NIS enterprise funds.

**Question 9.** The Administration has established an interagency working group on crime in the New Independent States.

—Who is in charge of this Interagency Working Group?

—How many times has the group met?

—How does this group relate to the Interagency Working Group on Administration of Justice programs?

—What is the timetable for developing a program to help Russia address this problem?

—What is the timetable for developing a program to help other countries in the NIS?

—What specific recommendations has the Interagency Working Group made?

**Answer.** Last April the office of the Ambassador-at-Large for the NIS established an interagency working group (IWG) to review our overall policy on crime and corruption in the NIS. The IWG includes members from the foreign affairs, foreign assistance, and law enforcement communities, and, when appropriate, representatives from the intelligence community and Defense Department. The group met on a frequent basis last fall; it now meets at least every quarter.

In close consultation with my office and the Bureau for International Narcotics Matters and Law Enforcement (INL), the IWG determined that law enforcement training programs in this first year should concentrate on Russia, Ukraine, Belarus, and Kazakhstan. There are four reasons for this: one, the danger of nuclear proliferation is greatest there; two, the legal system in these NIS is relatively well developed and stable; three, we have identified officials we can work with; and four, all four countries have requested our assistance. By the end of this year, we anticipate adding other NIS (most likely Moldova and the Kyrgyz Republic).

In addition, two State Department working groups, one in the area of rule of law (administration of justice) and the other in law enforcement, coordinate implementation of our assistance program. For implementation issues that need to be coordinated, I have asked the Deputy Coordinator to resolve them in consultation with INL and other agencies, as appropriate.

Training and technical assistance in the area of rule of law is already rolling out in the four nuclear countries and other NIS. Law enforcement training has also begun in Russia, Ukraine, and Belarus; to date, a total of fifteen courses have been offered in the areas of organized crime, financial crimes, and counternarcotics.

**Question 10.** In the field, who is in charge of these law enforcement assistance programs? Does it differ from country to country? If so, why?

The Bureau of International Narcotics Matters and Law Enforcement (INL) plans to assign an officer to Embassy Moscow to coordinate the law enforcement assistance program in Russia. Given the size of the program and the sheer size of the country, Russia needs a full-time coordinator. In Ukraine and Belarus, the Political Section and the Regional Security Office coordinate and facilitate the law enforcement training programs in-country. As the program grows and develops, we will re-evaluate the need for further resources in the field for coordination.

**Question 11.** The U.S. is providing up to \$30 million for assistance to NIS and SEED countries to fight organized crime and reinforce the rule of law.

—Do you have assurances from the FBI that its field agents will remain firmly under the policy guidance of the Ambassadors in Russia and elsewhere?

—Do you have assurance that none of this money will be used for improving the capabilities of NIS internal security forces to carry out the practices of the old regime?

—Does the U.S. “vet” the law enforcement officials we are training? Who does the vetting? Have any candidates been turned down?

**Answer.** From the beginning of the program, the FBI and other law enforcement agencies receiving FREEDOM Support Act funds have worked closely with the Department of State and its missions in the NIS. Anyone travelling to the NIS must receive country clearance from the respective chief of mission, and receive a briefing from the embassy after arrival. From all reports, cooperation between the law enforcement agencies and the field has been excellent.



Because engagement in police training overseas always carries an element of risk, we are very careful to examine closely with whom we are dealing in the HIS Ministries of Internal Affairs (MVD). Our law enforcement training programs focus on organized crime, financial crimes, and narcotics trafficking and work with officers responsible for these areas. Specifically, we do not have any cooperation with the MVD special forces (OMON).

Candidates for U.S.-based training must receive a U.S. visa and are vetted through each embassy.

*Question 12.* Please tell us about the regional law enforcement training center being established by the FBI in Budapest. How much will this facility cost? How will it be funded? Who will provide the training? Who, and how many, will be trained?

Answer. The International Law Enforcement Academy (ILEA) will open April 24, 1995. The ILEA will offer five 8-week mid-level training courses for some 50 participants (annual total of 250), divided among Central East Europe (CEE) and NIS countries. Courses will be taught by visiting faculty from the U.S., Canada, and EU countries.

Training costs for CEE and NIS participants will be covered out of SEED and FSA funds and \$800,000 has been allocated for FY95. In addition, the Bureau of International Narcotics Matters and Law Enforcement of the State Department has designated \$1 million of ESF funds for the renovation of the Budapest facility, and FBI Director Freeh has authorized an additional \$1.5 million from FBI resources.

#### IV. COUNTRY QUESTIONS

##### A. RUSSIA

*Question 1.* What assurances do you have that none—I repeat, none of the assistance that the U.S. is sending to Russia can be diverted either to pay for the campaign in Chechnya or for its consequences to the Russian budget? What is your source of \$20 million in funds announced by the President to help pay for reconstruction in Chechnya?

Answer. Because we, as a rule, provide technical assistance and exchanges to Russia, not cash, our assistance cannot pay for the campaign in Chechnya or help with the Russian budget.

The humanitarian assistance to refugees in Chechnya is being funded by 1) humanitarian transportation funds administered by my office, which, together with the value of the food and medicine being supplied, total \$10.5 million; 2) contributions of \$2.2 million to the ICRC and International Office of Migration (IOM) from NIS assistance funds previously budgeted for Russia; and 3) contributions of \$11 million from the Emergency Refugee and Migration Assistance fund to the ICRC, UNHCR, World Food Program and IOM.

*Question 2.* Your FY 96 budget request includes \$5 million for "NIS Peacekeeping."

—What is the purpose of the request?

—Is this meant to support Russian troops on "peacekeeping" missions to NIS countries?

—In light of Russia's record in Chechnya and Georgia (Russian planes bombed the Georgian city of Sukhumi in 1993 in support of Abkhaz rebels), why do you seek this request?

Answer. A key U.S. objective in the NIS is the peaceful resolution of regional conflicts, such as those in Nagorno-Karabakh, Georgia, and Tajikistan. Disputes and conflicts in the NIS undermine the viability of these states and threaten stability, democratization and reform in the region. The \$5 million that was requested for NIS peacekeeping will be directed toward supporting peacekeeping operations like the OSCE's multinational peacekeeping operation for Nagorno-Karabakh.

No, this money will not be used to support Russian troops on "peacekeeping" operations in the NIS countries. Rather, we support a multinational approach to peacekeeping in the region, like that proposed by the OSCE for Nagorno-Karabakh.

Russia's record in Chechnya underscores the importance of supporting multinational efforts to resolve regional conflicts in the HIS. We are encouraged that the Russians have agreed to an OSCE mission in Chechnya.

*Question 3.* American Business Centers (ABCs) are now in operation or planned for 14 cities in the NIS. What has been the impact of these Centers on business development? Are they worth the investment of taxpayer dollars?

Answer. ABCs are one part of the package of measures being taken to make it easier for American businesses to develop trade and investment possibilities with the NIS. Everybody is well aware of the region's numerous practical difficulties. Over time, the private sector in the HIS will develop these services, as is already

beginning to happen in some key cities. But in the meanwhile, ABCs are filling a vital gap by ensuring that key services are available. The evidence is that traveling business people are using the centers, and paying fees for services. This demonstrates that they are meeting a need.

Overall, of course, this is one of several interconnecting measures which seek to give American businesses extra support in order to encourage them to move into the HIS sooner than they otherwise might. They closely complement, and magnify the capabilities of FCS offices in the region. Combined with BISNIS information services, bringing local business people to the United States for SABIT internships with U.S. firms interested in expanding their business contacts with the HIS, and expanded programs with EXIM, OPIC and TDA, these ABCs represent important support.

No one of these programs by itself creates trade or investment. But each helps compensate for the uncertainties and inadequate infrastructure found in the HIS. This is especially important for small to middle size firms. U.S. firms are moving forward in the region because opportunities exist, but from what we hear these programs help them to do so sooner, or with greater success, than otherwise would happen.

Investment in ABCs produces a double payoff. Not only do they make it easier for American firms to explore business opportunities in Vladivostok, Ekaterinburg, Novosibirsk and other such places, but they spur the local private sector to get into business services. The ABCs set a standard as to the level of services that international firms need. You can be sure local private businesses will observe, imitate and compete.

Further, there is a dividend for American taxpayers in the cities in which the ABC is co-located with a local FCS office. The ABC will close as soon as it has done its job by encouraging private sector competition, but the renovated office space used for the ABC will be available to FCS should demand for their services have grown as much as is likely. Given the shortage of commercial space in these developing economies, this may be a significant additional benefit. In conclusion, we believe that the ABCs are worth the investment of taxpayer dollars.

*Question 4.* The charge is often made—including by you—that short term exchanges are bad value for money and are often little more than shopping trips for the Russian or other participants.

—What percentage of exchanges are short-term versus long-term (3 to 6 months or longer)?

—Do you see any utility at all in such short term exchanges, given the sharp criticism of them?

*Answer.* Approximately one half of our exchanges and training budget is expended on short-term (less than three months) programs.

We believe that to be effective you must conduct both long- and short-term exchanges. We share the view of the House Leadership delegation that visited Russia in April 1994 and subsequently wrote to Secretary Christopher, "Not enough Russians are able to see how democracy and free markets work; . . . after this visit we feel even more strongly that a massive increase in Russian visits to America is crucial." It is impracticable to undertake only long-term exchanges since they preclude the participation of entire target audiences (business people and entrepreneurs, local and regional government officials, editors and journalists, other opinion makers) who are unable to devote more than several weeks to an American experience.

Focused, thematic study programs and internships of between one and six weeks offer these important audiences intensive American experiences in their professional fields with measurable results.

On another, equally important level, short-term exchanges result in changes to participants' knowledge base, attitudes, and professional methods that have an immediate effect. For example, a senior Yeltsin aide, immediately on his return from a short-term exchange on Executive-Legislative relations, recommended to the President the reorganization of the President's legislative affairs office. In addition, many of our short-term business internships (USIA's Business for Russia, Commerce's SABIT program, and USDA's Cochran program) have generated increased trade for American businesses.

*Question 5.* This House has voted to rescind \$110 million in a project to house Russian officers being withdrawn from the Baltics. How much has been spent on this project, and how much committed? Will shutting down this program cost almost the same amount as the projected savings of the rescission?

*Answer.* As of February 9th, USAID has spent \$39 million on the Russian Officer Housing Program. The entire \$160 million budgeted for the program has been obligated. It is difficult to estimate how extensive the close out costs would be were the

Russian Officer Housing Program terminated. There would certainly be protracted law suits involving the American firms. Additionally, the political backwash in Russia and the Baltic countries would be extensive.

**Question 6.** AID has insisted on keeping all its personnel in Moscow, despite the size of the country and the willingness of U.S. consulates in other regions of Russia to have an AID presence.

—Why does it make sense to keep all your personnel in Moscow?

—How can you implement and monitor effectively AID programs in remote regions such as Vladivostok without an AID presence?

—What percentage of AID's Russia program is in the Moscow region? the St. Petersburg region? the Ekaterinburg region? the Vladivostok region?

—How many AID personnel will be on-board in Moscow by the end of this fiscal year?

**Answer.** The most urgent need in USAID/Moscow has been to get the core staff in place to meet our basic responsibilities. Because of administrative delays, time required for language training for the Foreign Service assignment process, has taken nearly three years to accomplish that task. It would have been a mistake to try to provide staff to Consulates before we had our core staff in Moscow.

Regional postings are not without operational disadvantages. The centralization of staff in Moscow has avoided the serious problem of confused lines of authority that frequently occur when there are regional officers who have shared project and contractor supervision responsibilities with officers in the capital cities.

Recommendations for regional staff generally stem from concerns about inadequate supervision of and coordination among contractor staff in the regions; the need for Consulate and contractor staff to better understand how all the activities fit into a coherent whole; and the need for more official interaction with local authorities. These concerns were most valid during the start-up phase of the program, when the national Mission was also understaffed.

Now that problem is behind us, these issues are being dealt with by more frequent field visits by USAID/Moscow staff, the provision of more adequate information on the overall program to regional personnel, and frequent information-sharing meetings that the Consulates are hosting, in addition to more active Consulate involvement in facilitating information exchange at the local level.

Frequent field visits enable USAID/Moscow to implement and monitor USAID programs effectively in remote areas of Russia. For example, in the past year (March 1, 1994–March 1, 1995) USAID/Moscow staff have made trips to the following representative sites:

|   | Number of<br>trips |
|---|--------------------|
| <b>RUSSIAN FAR EAST (Vladivostok and Khabarovsk)</b>          |                    |
| American Staff  |                    |
| US Direct Hire .....  | 5                  |
| US Personal Services Contractors .....                        | 11                 |
| SUBTOTAL .....  | 16                 |
| Russian Staff   |                    |
| Foreign Service Nationals—Personal Services Contractors ..... | 4                  |
| TOTAL .....   | 20                 |
| <b>EKATERINBURG</b>   |                    |
| American Staff  |                    |
| US Direct Hire .....  | 11                 |
| US Personal Services Contractors .....                        | 12                 |
| SUBTOTAL .....  | 23                 |
| Russian Staff   |                    |
| Foreign Service Nationals—Personal Services Contractors ..... | 9                  |
| TOTAL .....   | 32                 |
| <b>NIZHNI NOVGOROD</b>  |                    |
| American Staff  |                    |
| US Direct Hire .....  | 12                 |
| US Personal Services Contractors .....                        | 13                 |
| SUBTOTAL .....  | 25                 |



|   | Number of<br>trips |
|---|--------------------|
| Russian Staff   |                    |
| Foreign Service Nationals—Personal Services Contractors ..... | 7                  |
| <b>TOTAL .....</b>  | <b>32</b>          |

Over three-fourths of our assistance activities are active outside Moscow in at least 34 regions of Russia. Most of our technical assistance contracts and grants cover activities throughout Russia without differentiation of funding by region, and are managed by our office in Moscow. Many of the regional activities include placement of long-term contractors and grantees in the field. While it is difficult to assign specific percentages of our assistance funding to activities in the Moscow, Saint Petersburg, Ekaterinburg and Vladivostok regions, we can provide information on the specific activities operating in each of the four regions.

Number of AID personnel on-board in Moscow by the end of this fiscal year:

|                                |            |
|--------------------------------|------------|
| American Staff                 |            |
| USDH .....                     | 25         |
| USPSC/OS .....                 | 8          |
| USPSC/L .....                  | 33         |
| <b>Total .....</b>             | <b>66</b>  |
| Russian Staff                  |            |
| FSN-DH .....                   | 2          |
| FSN-PSC .....                  | 119        |
| <b>Total .....</b>             | <b>121</b> |
| <b>Total USAID staff .....</b> | <b>187</b> |

Legend:

USDH—US Direct Hire (USAID Foreign Service Personnel)  
 USPSC/OS—US Personal Services Contractor/Hired "Offshore"  
 USPSC/L—US Personal Services Contractor/Locally Hired  
 FSN/DH—Foreign Service National—Direct Hire  
 FSN/PSC—Foreign Service National—Personal Services Contractor

#### B. KYRGYZ REPUBLIC

*Question 1.* You have consistently cited the Kyrgyz Republic as the leading reformer in Central Asia. Yet according to your annual report, technical assistance in support of reform has been a minor part of U.S. aid to Kyrgyzstan (\$62 million in technical assistance obligations versus \$193 million in food and humanitarian assistance).

—Why, if you want to support reform, has so much assistance gone for humanitarian purposes?

—How does such an assistance profile achieve U.S. goals of transforming the economy and society?

—How is this pattern changing in 1995 and in the proposal for FY 96?

Answer. The numbers to which you refer in our annual report are cumulative figures for NIS assistance since the program began in 1992. If you look below these cumulative figures to annual figures, you will see a dramatic shift beginning in FY 1994 of U.S. assistance resources in Kyrgyzstan away from food and humanitarian assistance to technical assistance. This shift in resources is consistent with our strategy for supporting economic and democratic reforms in the Kyrgyzstan and is emblematic of our overall assistance program in the NIS.

Our initial focus on food and humanitarian assistance was the result of efforts to address the severe economic problems Kyrgyzstan faced in the immediate wake of the break-up of the Soviet Union. As the situation stabilized and the Kyrgyz Government adopted a wide-ranging reform program, our assistance program also shifted. The humanitarian and food assistance at the beginning of the program provided an incentive to the Kyrgyz Government to begin the difficult path of economic and democratic reforms that we advocated and also provided the government time to address these important issues without worrying about how it would feed its people.

Here is some background information on our assistance spending patterns in Kyrgyzstan:

—Of the obligations for \$193 million of food and humanitarian assistance for Kyrgyzstan through the end of 1994 cited in the annual report, approximately \$134 million was provided from the beginning of FY 1992 to the end of FY 1993.



- The peak year was FY 1993 when the United States provided approximately \$113 million of humanitarian and food shipments to Kyrgyzstan.
- In 1994, only \$38 million of food and humanitarian assistance was provided—almost one half of the amount of resources (\$58 million) budgeted for technical assistance programs in Kyrgyzstan in 1994.
- USDA has consistently reduced its level of food shipments over the past three years from \$88 million in 1993 to a projected \$17 million in FY 1995.
- Humanitarian shipments are also expected to be significantly lower than in the past. In addition, most humanitarian shipments (with the exception of a \$19 million DoD excess hospital provided in 1993) have been private donations that the USG has provided funding only to cover transportation costs.
- In FY 1994 and 1995, funding levels for technical assistance in the areas of democracy-building and economic reform in Kyrgyzstan rose significantly. U.S. programs are addressing energy price reforms, privatization, private business development, housing reform, the rule of law, development of independent media and others area important for political and economic reform.

**Question 2.** How do proposed rule of law and democracy programs intend to deal with the anti-democratic trends seen in recent Kyrgyz government actions?

**Answer.** We have had a broad-based democracy-building program, including both exchanges and technical assistance, in place for the Kyrgyz Republic for several years now.

Both the International Republican Institute and the National Democratic Institute have been active assisting nascent political parties. Organizations such as the American Bar Association have been promoting a stronger judiciary, training judges and attorneys and helping establish bar associations. USIA-sponsored exchange programs have brought hundreds of young Kyrgyzstani to the U.S. for study and research.

The best guarantee against abuses by the government is strong and independent media. Partly in response to recent moves to recentralize power in Bishkek, we have placed great importance on our media programs in the Kyrgyz Republic. USIA has organized training programs for journalists in independent media outlets from the Kyrgyz Republic. In addition, USAID-funded Internews, which has been highly successful in nurturing independent television in Russia, plans to expand its activities into Kyrgyzstan.

**Question 3.** Although the Department of Defense (DoD) has developed guidelines designed to audit and examine Cooperative Threat Reduction (CTR) assistance in former Soviet Union, only one such audit has been conducted to date. Why haven't more examinations taken place? When are more audits planned?

**Answer.** The first audit and examination of Cooperative Threat Reduction (CTR) assistance, of the Continuous Communications Link project in Minsk, was successfully conducted on 24–25 January 1995. On 22–23 March 1995, representatives of the Department of Defense and the Russian Ministries of Defense and Atomic Energy met in Moscow to discuss the audit and examination process. As a result of these talks, the Russians have agreed to schedule an audit and examination in Ukraine of the Government to Government Communications Link and Strategic Nuclear Arms Elimination assistance. Representatives of the Ukrainian Ministry of Defense and Ministry of Foreign Affairs are in Washington the week of 8 May to discuss type audit and examination process with DoD. We are confident that we will proceed with this audit and examination in Ukraine in June. DoD plans to conduct the first audit and examination in Kazakhstan later this summer and will then begin conducting audits and examinations on a regular basis in all four recipient states.

**Question 4.** It appears that DoD lacks an overall strategy for auditing CTR assistance delivered to the former republics. How do CTR officials plan to ensure that the CTR assistance being delivered is being used for the purposes intended? If assistance is not being used for its intended purpose(s), what measures will the United States take?

**Answer.** DoD has a strategy for ensuring that Cooperative Threat Reduction (CTR) assistance is being used for its intended purposes. Accounting for CTR assistance is conducted in several forms. These include the use of audits and examinations, observations by technical teams, and national technical means. The initial CTR audit and examination was conducted successfully in Belarus on 24–25 January 1995 and an audit and examination of the Railcar Modification Kits project will occur in Russia the week of 15 May. DoD anticipates that audits and examinations in Ukraine and Kazakhstan will occur before the end of the Summer. If DoD discovers that its assistance is not being used for its intended purposes or if the recipient fails to provide DoD with unimpeded exercise of its audit rights, they can raise the issue with the relevant officials in the recipient states to try to remedy the situa-

tion. If the problem continues, DoD can suspend deliveries of equipment and material for that particular program until we can correct the situation.

COORDINATION OF OUR U.S. GOVERNMENT AGENCIES UNDER THE FREEDOM SUPPORT ACT PROGRAM

*Question 1.* A report just released by the General Accounting Office states that the process of coordinating U.S. Government agency efforts under the FREEDOM Support Act has encountered some serious difficulties.

It is also stated in that report that there is a certain structural confusion in the management of the overall program, with the Coordinator at the State Department not always playing the central role that was envisioned for him under the 1992 Act and the commission set up by Vice President Gore and Russian Prime Minister Viktor Chernomyrdin often stepping in to redefine priorities in certain areas.

What are your comments in response to the GAO report?

*Answer.* The GAO report describes several problems that were present in the coordination procedures during the time of most of their research, about a year ago. Many of these problems have been resolved. The GAO is now doing a revised and updated report that will likely present a more up to date picture of the current coordination process. Our office works closely with the Office of the Vice President to harmonize the assistance program with the Gore-Chernomyrdin Commission. Most of the GCC focus is on removing obstacles to trade and cooperation. The assistance program is a part of this process.

*Question 2.* Ambassador Simons, there has been a report that a new Coordinator may be appointed to your position. How can a new coordinator gain the necessary on-the-job experience to run this multi-agency effort in the HIS without running into renewed bureaucratic squabbles among some of those agencies?

*Answer.* There will always be disagreements among agencies when implementing a program of this size, importance and complexity; one wouldn't want total agreement. That is why the FREEDOM Support Act created the Coordinator. I am confident that the new Coordinator will manage these challenges in a way that will ease your concern.

*Question 3.* I would like to have a breakdown of the FY 1996 budget request as it relates to supporting law enforcement, non-proliferation of nuclear materials, support for investigative journalists, rule of law and judicial improvement efforts in the New Independent States.

I noted, in areas outside of the FREEDOM Support Act, that \$15 million is being requested for non-proliferation assistance to the HIS to stem illegal nuclear exports and that an unidentified amount is being requested under the International Narcotics, Crime and Terrorism account for assistance to fight organized crime, financial crimes, nuclear smuggling and drug trafficking in the HIS?

What is the total FY 1996 budget request for these types of activities in the New Independent States?

*Answer.* The FY 96 FREEDOM Support Act (FSA) request of \$788 million includes \$15 million for law enforcement training activities, and \$15 million for support of the rule-of-law. Training of journalists is normally handled by the U.S. Information Agency; in FY 96 it is expected that USIA will carry out its activities in the NIS under a direct appropriation. We expect that investigative journalism will be one of areas covered in these training programs.

The State and Defense Departments agreed that FY—1996 funding for export control assistance would be transferred from the DoD Nunn-Lugar account to State, in order to ensure more efficient coordination of all U.S. export control assistance efforts in the FSU and Central Europe. After considering several options, State decided that it would be most efficient to administer these FY 1996 funds through the procedures set up for the Nonproliferation and Disarmament Fund (NDF), under the Bureau of Political-Military Affairs. The \$15 million in FY 1996 funds that has been requested for NDF export control assistance activities will permit agencies to submit additional proposals to the NDF Board for export control projects in the NIS and in Central Europe. This is expected to include additional projects for Kazakhstan and Ukraine to complete the establishment of automated and interconnected licensing and enforcement systems.

In FY 96 the Bureau of International Narcotics Matters and Law Enforcement has not requested additional funds, outside the FSA request, for law enforcement activities in the HIS.

*Question 4.* Are the FBI and other U.S. law enforcement agencies now receiving funds from AID for law enforcement, judicial improvement, drug trafficking prevention, and rule of law activities under the \$30 million allocated to such efforts under

the FY 1995 appropriation for the FREEDOM Support Act and SEED Act programs?

Answer. The FBI and other law enforcement agencies have received funds allocated to them by the Coordinator's office and the Bureau for International Narcotics Matters and Law Enforcement Matters at the Department of State. The total amount in FY 95 comes to \$15 million from the FREEDOM Support Act.

Question 5. In FY 1996 budget request it states that \$148 million of the \$788 million total request for the New Independent States under the FREEDOM Support Act will be allocated for political reforms efforts.

What specific programs would be supported with that \$148 million?

Answer. We have broken the FREEDOM Support Act (FSA) budget out into three categories: Market Economy Transition, Humanitarian- Social Sector Restructuring, and Transition to Democracy. Under the latter category, we have the following subcategories:

- Democracy and Governance (political processes, legal reform, local government, media, NGO support): \$52.5 million
- Exchanges and Training (primarily USAID; USIA has requested a direct appropriation for its HIS programs previously funded under the FSA): \$30.5 million
- Law Enforcement Training (FBI and other law enforcement agencies): \$15 million
- Cochran Fellowship Program (USDA): \$2 million
- Eurasia Foundation: \$12 million
- Science Centers: \$18 million
- Title VIII (support for U.S. research in the NIS): \$3 million
- Performance Fund (to support programs/initiatives that—develop over the year): \$15 million
- TOTAL: \$148 million

Question 6. How are you working to coordinate such AID-funded programs with other programs that may have relevance to political reform, both in the short term and the long term?

Specifically, what is being done to coordinate with the political party organization efforts of the International Republican Institute and the National Democratic Institute?

What is being done to coordinate such AID-funded political reform programs with programs run by the U.S. Information Agency in areas such as secondary school civics course reforms—areas that may have great relevance to political reforms in the New Independent States in the longer term?

Answer. In keeping with our mandate to provide overall coordination of the assistance effort, all project designs are reviewed and approved by my office. In addition, my office chairs a number of interagency working groups, including one in the field of democratic initiatives, where agencies can share information, avoid duplication of efforts, and generally ensure that programs are efficiently implemented. While the majority of technical assistance is implemented by USAID, USIA also plays an important role, particularly in the fields of media and educational exchanges. USIA's program in civics course reform, for example, targets the successor generation, reaches far across the Russian Federation, and is one of the most cost-efficient programs that we fund.

USAID's coordination with IRI and NDI begins prior to the awarding of the grant agreements. USAID technical offices work closely with IRI and NDI to ensure that their programs will have the greatest impact on political reform, integrate well with other components of our political reform program, and avoid duplication. This process continues throughout the life of the cooperative agreements, as the USAID project managers review workplans and quarterly reports, and meet on a regular basis, both in Washington and in the field, with their IRI and NDI counterparts.

The coordination effort goes beyond an arrangement between USAID and its grantee. For example, prior to the parliamentary elections held in February in the Kyrgyz Republic, my office and USAID organized a number of coordination meetings in Washington with NDI, IRI and another grantee—the International Foundation for Electoral Systems (IFES). The Democracy program officer from USAID Central Asia, in Washington at the time, and the State Department Desk Officer attended each one of these meetings. We discussed plans for maximizing effectiveness and avoiding duplication. Once on the ground in the Kyrgyz Republic, the three organizations continued to coordinate activities and capitalize on the others' comparative advantages. They met on a regular basis with each other, as well as with representatives of Embassy Bishkek. By all accounts, this coordinated assistance effort was very well executed by NDI and IRI.



**Question 7.** How much of our total assistance program in the New Independent States is going to assist independent media outlets to begin reporting and broadcasting free of government interference?

What forms does that area of assistance take? Broadcasting equipment? Journalist training? Training for business support of a media outlet?

In countries like Russia, are we giving this segment of our assistance program enough attention?

**Answer.** As you know, the total FY 95 budget for the FREEDOM Support Act is \$850 million. Of that, the budget for independent media projects total \$7 million. Assistance to independent media is designed to help non-governmental newspapers and broadcast stations become more professional and self-sufficient. No direct assistance goes to government-controlled media, though their staff members are sometimes included in seminars and USIA-sponsored training programs in the U.S.

To date, the lion's share of our media assistance has been allocated in the form of grants to support programs administered by Internews Network, a California-based non-profit organization. Support provided under these programs has provided dozens of independent local TV stations across the CIS with equipment, training and program-sharing. USIA has also assisted in equipment donations through the International Media Fund to Russian newspapers.

A new USAID program will foster partnerships between U.S. and Russian media organizations. This program will go far, we believe, to help fledgling independent media in Russia become more professional and economically viable. USIA also funds the work of Professionals-in-Residence in Russia who travel to provincial capitals to consult on business and management issues in the media.

The USIA media program through grants to the National Forum Foundation has focused on providing short- and long-term internships and training programs for Russian and CIS journalists, editors, and managers in media companies and newsrooms across America. USIA also encourages the study of journalism in the United States through undergraduate and graduate programs of the FREEDOM Support Act.

Recent events in Russia have underscored the importance of supporting news outlets free from central government control. I have asked my staff to review our entire democracy program, and advise us whether resource levels for programs in media and elsewhere are appropriate, or should be adjusted in FY 96.

**Question 8.** In the Congressional Presentation Document of the FY 1996 budget request, it is indicated that the media in Russian may be largely independent of state control by 1997. Can you give us some insight into how that estimation has been arrived at?

**Answer.** USAID's FY 96 Congressional Presentation provided a list of provisional indicators measuring future progress toward the strategic objective of building democracy, including the following: "65% of the population (will be) served by independent, financially sustainable local TV stations in 1997." This estimation does not mean that most media in Russia will be free of government control, but that, given present trends, a majority of Russians will have an independent TV station among their sources of information.

**Question 9.** Is there a problem understanding U.S. laws with regard to trying to purchase broadcasting equipment for independent media outlets in the New Independent States?

**Answer.** Yes. The U.S. telecommunications equipment system, NTSC, is incompatible with the CIS SECAM system. Most CIS stations, therefore, rely on Japanese-built equipment which is based on the SECAM system.

USAID must prepare detailed waivers prior to authorizing procurement of foreign-made media equipment. This requirement slows down the procurement process considerably, and thus causes delays in project implementation. Lifting of the waiver requirement would substantially speed up the process and contribute to more efficient project performance.

#### ASSISTANCE DIRECTED TO GOVERNMENT BUREAUCRACIES

**Question 10.** How much of our assistance under the FREEDOM Support Act goes to the governments of the CIS, such as the Russian government, for government-run programs? What kinds of government programs are supported with our funds? If our funds are in fact directed at helping these countries' economies get out from under control by the government, what is the incentive for the entrenched government bureaucracies to assist you in such efforts? How do you gain their cooperation or work around those bureaucracies if they do not cooperate?

**Answer.** More than two-thirds of the FREEDOM Support Act assistance goes to entities other than the central governments. The one-third that supports programs



undertaken in cooperation with central governments funds programs that help central governments put in place the legislation necessary for a functioning market economy and that transfer assets from the central government to the private sector. Examples of the former include assistance in preparing legislation putting in place commercial codes, civil codes, capital markets, housing laws and tax laws. The mass privatization programs are examples of the latter. The privatization minister in Russia, now Deputy Prime Minister Chubays, has been the driving force behind economic reform in Russia. He has devised programs, some with our help, that have removed vast portions of the Russian economy from the control of the former Soviet bureaucracy. On the other hand, the agriculture sector has been much more resistant to change; in that case, we do not force our assistance on a reluctant bureaucracy. Our aid follows reform; we support reformers. We do not have the resources to waste on non-reformers.

*Question 11.* The 1994 annual report on the FREEDOM Support Act assistance programs acknowledged that there are some problems with a lack of follow-up.

Specifically, the report states that participants in the programs that provide advice and training are often left with little contact with U.S. agencies to assess what their next steps should be or to evaluate what they received from the programs after their participation is ended.

How are you doing in establishing follow-up evaluation procedures in such cases?

Answer. The two major agencies involved in training and exchanges activities, USIA and USAID, have both established mechanisms to follow-up on and evaluate programs.

USIA has traditionally tracked many of its program participants following their return to their home countries. The contract agencies which administer undergraduate and graduate student programs are also tracking return participants as they continue their careers. Through the creation of alumni associations, groups of participants are encouraged to build and maintain contacts among themselves and with American counterparts. To take one example, USIA has fostered the continuation of relationships through electronic mail. In Civics Education, USIA has seen a short-term exchange program in 1994 at Russell Sage College develop into a conference in Yekaterinburg, Russia, this June, all through electronic mail.

USIA has also begun conducting focus group sessions in Russia with returned exchange participants. These meetings evaluate the exchange experience and measure their outcome.

Similarly, USAID Participant Training Guidelines require that there be a "follow-on" component for every US-based training activity.

The NIS Exchanges and Training (NET) Project, for example, reserves \$1,000 for each participant trained in the U.S. for in-country follow-on activities. With these funds, NET contractor, the Academy for Educational (AED), arranges for in-country "refresher workshops", establishes alumni networks, enables participants to access the Internet system and supplements academic resources.

The NET Project contractor, AED, has full time follow-on coordinators at each of its NIS field offices. Their job is to meet with participants returning from U.S.-based training to determine their follow-on needs, establish a follow-on timeline for each participant so that AED can be in touch with them on a regular basis and finally, invite the participant to a follow-on activity that is arranged for a group of participants with similar backgrounds.

*Question 12.* How much of our training are we doing on-site in the New Independent States? Is it cost-effective to most of our training in the NIS rather than in the U.S?

Answer. Under the rubric of training and exchanges in the FREEDOM Support Act budget, nearly all of the training takes place in the U.S. (USIA has used a small portion of their FSA money to sponsor seminars and workshops in Russia and elsewhere in the NIS).

In-country training for a given group of people is clearly less expensive than arranging a similar program in the U.S. However, in most cases it is not necessarily cost-effective. If a major objective is to convey the experience of a society based on democratic principles, then it is better, as the Russian saying goes, "to see something once than to hear about it a thousand times." While learning the theory of the market is important, there is no substitute for actually seeing how a free-market economy works in practice.

In addition, programs in the U.S. have an important human dimension: exchange programs can change attitudes and create bonds that last a lifetime. These programs are an investment in both the present and the future: exchange programs target a highly educated young audience who will be in influential position later, and the short-term internship programs often create contacts that result in increased business for U.S. firms.

**Question 13.** How much is the Russian government paying for rent to the communist regime in Cuba for its use of the site at Lourdes for electronic eavesdropping on the United States?

How can expenditures for that be justified at a time when the Russian government cannot adequately finance its \$60 billion annual budget and is relying on the US, other countries, and the international financial institutions to help it get through its difficult transition to a market-based economy?

**Answer.** Unfortunately, the response to your first question is classified. However, we would be happy to provide the Committee with a detailed briefing on the subject at your convenience.

We are not in a position to justify Russian expenditures for rent of Lourdes. It is important to note, however, that U.S. assistance to Russia does consist of cash grants, but of technical assistance—the transfer of American know-how. Our assistance to Russia is designed to help Russian reformers build a market-based democracy that is finally at peace with itself and its neighbors, a nation that will by its very nature have an interest in seeing democracy flourish outside its own borders, including in Cuba. Cutting assistance now would hurt the friends of democracy in Russia—the same people who only a few years ago pushed the Russian government to end its massive economic subsidies to Cuba.

**Question 14.** We continually hear allegations that our technical assistance programs for the New Independent States are used by so-called “high-priced consultants” to make huge salaries at the taxpayer expense.

—What is the range of salaries made by consultants on the various technical assistance programs?

—What is the highest salary paid to such consultants or advisers or contract employees under any of our FREEDOM Support Act programs?

—If their work is in fact a valuable contribution to our programs, is there any way that we can get such consultants at lower salaries?

**Answer.** The following data are averages of salaries for consultants in the Russia program. Rates for the rest of the NIS are similar.

**SHORT TERM DAILY CONSULTING RATES:** The following data come from eleven firms currently providing consultants in the privatization and economic restructuring program.

**Average Short-Term Consulting Rates:**

|                        | Daily rate | Annual rate |
|------------------------|------------|-------------|
| Senior staff .....     | \$333.31   | \$86,660    |
| Mid-career staff ..... | 255.00     | 66,300      |
| Junior staff .....     | 169.00     | 43,940      |

**LONG TERM RESIDENT FIRM AND GRANTEE STAFF SALARY LEVELS:** The average annual salaries for 12 for-profit firms (48 persons) and 13 grantees (41 persons) are:

|                        | For-profit firms | Grantees |
|------------------------|------------------|----------|
| Senior staff .....     | \$64,055         | \$65,245 |
| Mid-Career staff ..... | 45,762           | 43,049   |
| Junior staff .....     | 24,900           | 29,020   |

The Federal Acquisition Regulations (FAR) state only that salaries under USG contracts be reasonable. USAID contracting regulations go beyond the FAR and set a specific cap for daily consulting rates. The current daily cap is \$443.52, based on the executive level (ES-6) annual salary of \$115,700 (with 261 work days per year).

Although it is possible to provide waivers for salaries in excess of the ES 6 level, no such waivers have been granted in the past two years.

For many of these consultants—particularly those in financial and legal fields—U.S. government rates are already significantly below those in the private consulting market. The consultants are willing to work at lower rates in order to participate in the Russian (and NIS) transformation process. Our Rule of Law efforts in particular have benefited from the pro bono services of lawyers.

USAID's work in Russia often involves high level policy dialogue and sophisticated technological issues demanding senior level financial specialists, investment analysts, engineers, international law and health system experts, etc. Thus, salary levels reflect the level of competency of such experts. Our Russian colleagues need to feel confident that they are working with individuals who have recognized experience and standing in their professions.

**Question 15.** We continually hear that contractors under the various FREEDOM Support Act programs are ensconced in the best hotels in Moscow and Kiev, paying

up to \$300 or more a night out of their per diem for rooms. Why is this the case? Is there in fact any evidence that per diems are being abused, either by U.S. Government employees or by contract employees operating under reimbursements set by their employers?

Answer. Compared with other major cities in the world, Moscow and Kiev per diems are high for short term consultants staying at hotels. These rates, currently set at \$188/day for lodging, and \$98/day for meals and incidental expenses in Moscow, and \$137/day for lodging, and \$80/day for meals and incidentals in Kiev, apply to all USG-funded travel, including contractors. These high rates are attributed largely to the cost of running a hotel in the NIS and the large number of foreign business persons travelling in the region, even though rates for USG travelers are lower than the standard business rate. Rates are also lower outside of Moscow and St. Petersburg. USAID makes every effort to house consultants in apartments when they stay more than a few weeks, but the availability of short-term apartments is limited and rents are high.

NIS per diem rates for lodging and meals/incidentals are set by the State Department for all USG travel to the region, and are adjusted (upward and downward) on a regular basis to account for inflation and market changes. The rates are tied very closely to actual expense averages, leaving very little room for abuse. USG travelers must file vouchers and supporting documents (such as hotel bills and ticket stubs) upon returning, and account for all expenses for which reimbursement is claimed. Receipts must be provided for all expenses over \$25. Contractors and grantees follow the same rules, and their reimbursement claims are subject to standard USG audit procedures for cost-reimbursable contracts.

We have seen no evidence of abuse of per diems by USG or contractor personnel.

Question 16. It seems that the Bradley Secondary School Exchange Program with the New Independent States has received a considerable amount of money in the last three fiscal years.

Is it appropriate to spend that much of our budget for exchanges with the NIS on high school students vs. on people in the emerging private sector, in the independent media, and in the regional and local governments—particularly when political trends in Russian may be moving in a negative direction and our opportunities to influence that society could conceivably begin to dry up in the next few years?

Answer. The question of balance, or "mix," among exchange program funding draws many responses. There has been and is debate over what proportion of resources should be allocated to any particular category of exchanges. It is difficult to say which category might in the long run be judged "most important" because each program offers a different kind of experience appropriate to the target audience in question, and the impact of each program varies. Short-term parliamentary exchanges and business internships meet different needs than longer-term academic training. The argument represented by the question is one viewpoint. Another viewpoint holds that change in Russia will be a gradual process with set-backs along the way. Older generations educated under the failed Communist system are at best transitional leaders. Hope for deep and lasting change resides in the values and attitudes of the younger generation, the next generation of leaders. This view argues for devoting substantial resources to high school exchanges as well as other academic and professional exchanges.

However, funding is not and need not be an either/or choice. Substantial funds are being devoted to exchanges for local and regional government officials, media, business people and entrepreneurs, and teachers and other opinion makers. We believe strongly that a successful program will require a mix of all these elements.

Question 17. Why do we need to have two different programs for exchange and training in the NIS funded by both AID and USIA?

Answer. There are major differences between the USIA and USAID programs.

USAID programs are developed based on USAID mission strategies for the host country and complement in-country technical assistance activities. These programs are highly technical and hands-on in nature, lasting an average of four to six weeks.

USIA has administered academic exchange programs on the territory of the former Soviet Union for over thirty years. Their programs predominantly focus on longer term exchanges, involving students, scholars and professionals. These programs are targeted at not only the current, but also the next generation of democratic and free-market reformers in the CIS. Unlike the AID programs, they are designed not to focus on narrow technical subjects, but to impart a broader familiarity with the U.S. experience and foster lasting bonds between us.

Taken together, our training and exchange programs not only facilitate the transfer of knowledge, skills and experience between U.S. and CIS citizens, but increase our mutual understanding.



**Question 18.** What is the status of the Western New Independent States Enterprise Fund, meant to serve Ukraine, Belarus and Moldova?

—How much has been allocated?

—When will it commence more active work in those countries?

**Answer.** The U.S. Government has established the Western New Independent States Enterprise Fund (WNISEF) to promote the creation and expansion of small and medium-sized businesses in Ukraine, Belarus and Moldova. A key issue in enabling the WNISEF to invest successfully in each of those countries will be progress on economic reform, particularly in Ukraine and Belarus.

The WNISEF has now opened offices in New York and Kiev and has appointed Scott Carlson, formerly with Dillon Read in New York and Calyx Capital of Berlin, as its President and CEO. He is now based in Kiev. The WNISEF plans to open small lending program "windows" in each of the three countries (as well as satellite offices in Belarus and Moldova) later this year. USAID obligated \$45 million to the WNISEF in September, 1994. To date, the WNISEF's total expenditures, all relating to start-up of its operations, are an estimated \$1.4 million.

The WNISEF is presently reviewing investment proposals and hopes to make its initial investments by mid-summer or early fall. It has just completed hiring of five investment officers, who will all be working for the WNISEF in Kiev by early summer. In addition the WNISEF plans to hire a managing director of its small business lending program in the next month. These actions should enable the WNISEF to accelerate its work in the Western NIS region.

**Question 19.** What is the status of the Central Asian-American Enterprise Fund? How much has it been allocated? When will it commence more active work in those countries?

**Answer.** The U.S. Government has established the Central Asian-American Enterprise Fund (CAAEF) to promote the creation and expansion of small- and medium-sized businesses in Kazakhstan, the Kyrgyz Republic, Tajikistan, Uzbekistan, and Turkmenistan. The CAAEF now has offices in New York, Uzbekistan, Kazakhstan and the Kyrgyz Republic. The CAAEF has appointed Richard Bernstrom as its President and Chief Executive Officer, and he is based in Tashkent.

The CAAEF approved its first two investments early this month and will fund its initial investment of \$3 million in a newspaper/printing company by the end of March. In addition, the CAAEF expects to establish its small business lending program in Kazakhstan, Uzbekistan, and the Kyrgyz Republic by mid-summer.

USAID obligated \$30 million to the CAAEF in September, 1994. To date, the CAAEF's total expenditures, relating to start-up expenses and its initial planned investments, are an estimated \$4.2 million.

The CAAEF has moved forward quickly in making its first investments. It is now reviewing a number of other investment proposals and expects to close more transactions by mid-summer. In addition, the CAAEF expects that its small business lending program will make its initial loans by July. These actions should enable the CAAEF to accelerate its work in the Central Asian Republics.

**Question 20.** What is the status of the Russian-American Enterprise Fund? When can we expect it to commence more active operations in Russia? How much has it been allocated? How much has it expended to date, and on what?

**Answer.** The U.S. Government established the Russian-American Enterprise Fund ("RAEF") to provide equity, credit, and related technical assistance to small- and medium-sized businesses throughout the Russian Federation. The RAEF now has offices in New York, Moscow, and Khabarovsk (located in the Russian Far East where the RAEF plans to invest at least \$40 million). Each of these offices are accepting applications for investments and loans.

The RAEF has approved a relatively small number of investment transactions since it was established in September 1993 and began its full-scale operations in the first quarter of 1994. According to RAEF management, investment activity was limited during the initial year of operation because attention was focused on major organizational decisions, and the RAEF was faced with the significant impediments and delay inherent in doing business in Russia. We have urged the RAEF that, notwithstanding these difficulties, it should accelerate its investment activity, consistent with its mission to provide seed capital to Russian entrepreneurs at this critical time in the Russian Federation's transition to a market economy. The RAEF now has managing directors for its Moscow office and its Khabarovsk office. It also has a former U.S. bank president with significant agricultural lending experience to manage the RAEF's small business lending program out of the Moscow office. As a result, the RAEF asserts that it is on the verge of significantly increasing its investment activity, with total financing expected to reach \$50-\$70 million in direct investments and up to \$12-\$15 million in small business lending by the end of 1995.



USAID has obligated \$70 million to the RAEF (\$20 million in FY 1993 and \$50 million in FY 1994).

Through March 1995, the RAEF projects to have total expenditures of approximately \$13.6 million. This includes operating expenses of at least \$5.4 million and a cash operating buffer of \$2.5 million. Since the RAEF began full-scale operations in early 1994, it has received several thousand inquiries and has reviewed well over a thousand written proposals. As of the end of February, under its direct investment program (i.e., investments greater than \$100,000), the RAEF had disbursed three transactions worth an estimated \$2.4 million: a \$140,000 debt and equity investment in a women's clothing factory outside of Moscow, a loan worth approximately \$1 million for a modern wood veneer processing plant in Archangelsk, and a \$1.2 million bridge loan to a diesel engine manufacturing plant (which is the first part of an \$8.8 million equity and credit investment currently being negotiated).

In addition, the RAEF now will invest \$2.5 million in the Russian Far East-based Giant food processing and distribution company by the end of this month and will increase its loan to the women's clothing factory by \$65,000. It also plans to disburse \$776,000 in debt financing to a construction materials company in the next month.

Finally, under its small business lending program (loans ranging from \$5,000 to \$100,000) which began full-scale operations in November 1994, the RAEF has now signed participation agreements with 8 Russian private banks located in St. Petersburg, Moscow, Vladivostok, and Khabarovsk. Using those banks as lending "windows", the program will provide loans of up to \$100,000 to small existing and start-up private enterprises in Russia. Through the end of February, the RAEF had approved almost \$1 million in loans and had actually disbursed \$544,000 (for eight loans). The RAEF plans to have the small business lending program disbursing \$1 million in loans per month later this year.

**Question 21.** How exactly will the enterprise funds in Russia and the other New Independent States coordinate their work with the Defense Enterprise Fund that has now been authorized under the Nunn-Lugar program? Is it necessary to have an additional Board of Directors and additional staff for such an enterprise fund? Can the enterprise funds allocated monies through AID carry out the functions of the Defense Enterprise Fund allocated through DOD?

**Answer.** The Defense Enterprise Fund (DEF), while structured much like the other AID-funded enterprise funds, has a unique mandate. This is unlike any of the other funds. The DEF is to focus solely on defense conversion in the four nuclear states of the former Soviet Union. Within that mandate, the DEF also has a directive to give priority to defense conversion projects which involves weapons of mass destruction enterprises. It is by contributing to the conversion of these, the most threatening of the former weapons industries, that the DEF contributes to our new concept of "defense by other means". Given the uniqueness of its mandate, it is essential that the DEF have its own Board of Directors, one which is clearly focused on the unique intricacies of working with these enterprises.

While it is true that the other AID-funded enterprise funds may engage in activities supportive of defense conversion activities, their field of view is much broader. In fact, the Russian American Enterprise Fund, for example, would not be able to directly assist large weapons of mass destruction enterprises because its charter calls for a focus on small to medium sized companies. By their very nature, the WMD facilities in the former Soviet Union are large and, therefore, out of the purview of the RAEF. While the funds can and do interact in ways that are complementary of each other, one is not able to replace the other in function. Their missions, and specifically that of the DEF, are to specific.

—To quickly and efficiently implement an effective assistance program in the region, USAID has relied in great part on building indigenous skills. Most of our contractors and grantees have hired and trained NIS citizens. Train the trainer program also figure prominently in the USAID portfolio.

—The NIS Exchanges and Training project was established in 1993 in part to provide training opportunities in the U.S. for NIS citizens from all sectors. To date, 4,700 individuals have been trained under the USAID portion of the program. All carry the experiences and knowledge gained in the U.S. back to their home countries, and many have had a great impact in business, legal reform, local government, and services, based on their exposure in the United States.

**Question 22.** It is reported that the Export-Import Bank has a total of \$1.3 billion in authorizations for business deals involving Russia.

How much of that \$1.3 billion has actually been provided and the contracts carried forward? There have been unofficial reports that little of the \$1.3 billion in authorizations has gone forward. Is that the case?

Answer. The Export-Import Bank has approximately \$1.5 billion in authorizations for business deals involving Russia in FY 1994 and 1995. The Export-Import Bank has disbursed a total of \$2.8 million of these loans. Delays in concluding the Oil and Gas Framework Agreement with Russia—80 percent of Exim's loans are in the oil and gas sector—are the principal obstacle to moving forward with disbursements. We expect the agreement to be concluded in a reasonable time period, allowing Exim to significantly increase disbursements.

Question 23. What is the status of the economic reform effort in Ukraine? Will Ukraine need additional balance of payments relief over the coming year? If so, who will contribute to helping it in that area? The U.S., the European Union, perhaps Russia (through oil and gas debt rescheduling)?

Answer. The Ukrainian Government under President Leonid Kuchma has made substantial progress in implementing comprehensive economic reform. Over the past five months, in coordination with the IMF's Systemic Transformation Facility (STF) program, Ukraine has lifted price controls on most commodities, raised energy prices, liberalized trade regulations, unified the exchange rate and tightly restricted credit. Moreover, in a radical break from past policies, the GOU has launched its mass privatization program under which some 8,000 state-owned firms are to be converted to private enterprises.

Just this month the Government of Ukraine came to agreement with the IMF on the terms for a more rigorous Stand-by Arrangement. Under this program, Ukraine will strive to build on progress made under the STF to complete the process of price liberalization, expand export liberalization, tighten fiscal and monetary policy and accelerate privatization and restructuring. Specific targets of the program will be to restrict the budget deficit to 4% of GDP, reduce inflation to 1% per month by the end of the year, stabilize the exchange rate, and significantly increase exports.

The IMF has estimated that Ukraine will face an external financing gap of \$900 million in 1995 if it undertakes the reforms developed under the IMF STF and Stand-by programs. This is a residual gap that takes into account substantial IMF and World Bank credits and Turkmenistan's and Russia's rescheduling of energy debt. Financial contributions by the U.S., EU, Japan and other industrialized countries offer the only possibility for closing the residual gap.

On March 21, at the World Bank Consultative Group Meeting for Ukraine, bilateral donors pledged a total of \$855 million towards filling this gap. These contributions included a U.S. pledge of \$250 million, an EU pledge of \$400 million (conditional on a further commitment by the GOU to the early closure of the Chernobyl nuclear plant), a Japanese pledge of \$200 million, and a Canadian pledge of \$5 million. The Russian Federation also confirmed at the meeting that it would reschedule some \$2.5 billion in Ukrainian official debt and energy arrears to Russia, making Russia in fact the largest bilateral contributor.

The U.S. pledge of \$250 million consists of \$60 million in USG-transported humanitarian shipments of food and medicine donated by private U.S. groups, and from \$160–190 million under a new trade credit insurance facility guaranteed by USAID and operated by Eximbank to provide critically-needed U.S. inputs for the Ukrainian agricultural sector. The U.S. package also includes \$15 million in commodities—such as computers and pharmaceuticals—which will be shipped to Ukraine in 1995 in connection with USAID technical assistance programs.

On the basis of these pledges, it appears likely the IMF Board will approve the Stand-by at its next meeting in early April. Under this IMF program, Ukraine is eligible to receive up to \$1.85 billion in IMF financing in the next twelve months.

Question 24. It has always been assumed that the FREEDOM Support Act assistance program will be phased out in the next few years.

When will you make your last request for appropriations under the program?

It has been stated in the Congressional Presentation of the FY 1996 Budget that there may be a "second wave" of reforms in countries such as Ukraine, Armenia, Georgia and Belarus?

Do the present budget projection provide you with the means to meet the needs of countries like Ukraine and Armenia if their reforms proceed?

Answer. This program is transitional by design. These countries generally do not need the kind of developmental assistance we provide underdeveloped countries in other parts of the world. We expect to make the last request for new funds for technical assistance to Russia in the FY98 budget request. The last requests for technical assistance funds for other countries will follow several years thereafter.

Of course we do not have the resources to meet all the needs of countries like Ukraine and Armenia; we are working with a number of countries to try to provide some of the needed support. Our budget request represents the bare minimum required to support reform and reformers in the second wave of NIS countries adopting comprehensive economic reform. The needs of all the NIS countries will be met

in the first instance by the individual countries with support from the international community, led by the United States, including both bilateral donors and the international financial institutions.

**Question 25.** Are Russian Government agencies still applying customs taxes to goods purchased for assistance programs in Russia and the other New Independent States? If so, how can we get that practice ended?

**Answer.** The bilateral assistance agreement signed by the Governments of the United States and Russia states, "Commodities, supplies or other property provided or utilized in connection with the United States assistance programs may be imported into, exported from, or used in the Russian Federation free from any tariffs, dues, customs duties, import taxes, and other similar taxes or charges imposed by the Russian Federation, or any subdivision thereof."

In practice, however, the bilateral agreement with Russia has been applied inconsistently, creating significant problems for contractors and grantees implementing the U.S. assistance program in Russia. The USG continues to engage the Russian Government in discussions at all levels to address this issue. A temporary solution has been worked out on the USG side to prevent delays in implementation of the program.

The U.S. Embassy has agreed to allow contractor and grantee goods to be consigned as Embassy shipments, thereby avoiding customs delays. On the positive side, Russian providers of goods and services, such as hotels, are increasingly accepting VAT exemption letters without question.

**Question 26.** Under the voucher portion of the AID program to support the resettlement of Russian military officers from the Baltics states, a limit of \$25,000 was placed on each voucher.

Isn't that an excessive figure? How is it that in depressed economy like Russia's, in which the currency is now traded at—what?—some three or four or more thousand per one U.S. dollar, that housing can cost so much?

**Answer.** The maximum unit price permitted under the Russian Officer Resettlement Program is \$25,000.00. If an officer purchases a unit for less, the voucher may only be redeemed for the cost of the unit.

The use of that ceiling was established in the summer of 1993 by USAID staff and contractors. They analyzed costs both for the \$6 million pilot project being contracted and for the 5000 unit follow-on. These analyses were based on the following:

- current construction costs in Russia, using Russian labor and materials;
- surveys and interviews with 90 construction firms in Russia;
- inspections of building sites of a variety of building styles and locations;
- consultations with construction specialists;
- actual contract negotiations for the pilot sites.

The analyses included land and infrastructure costs as well as construction, and factors were estimated for contingencies and overheads. The German experience was examined, though this proved to be less instructive because of their use of imported major components, as well as the high quality of finish.

The 1993 analysts recommended a maximum per unit cost of approximately \$12,000 as of the end of 1993. They then attempted to project costs over a two year period. The most difficult economic factors to estimate were exchange rates and the degree of inflation. In 1993, inflation in the construction industry was particularly high. Although it was assumed that the ruble would be devalued, economists estimated that the rate of inflation would exceed any currency devaluation. Analysts feared that this inflationary pressure could easily cause costs to triple over the life of the project. Based upon these estimates in 1993, USAID concluded that a unit price of \$25,000 would be sufficient to supply the required 5000 units in the specified timeframe.

**Question 27.** The Germans have financed a great deal of housing for withdrawing Russian troops. How much have they financed? Couldn't Germany, and perhaps the Scandinavian countries pitched in to do this housing resettlement program in the Baltic states?

**Answer.** The Government of Germany has made a 7.8 billion Deutschmark contribution to a construction program to provide 46,000 housing units as well as infrastructure (schools, roads, sewers, etc.). This larger effort was undertaken to ensure the withdrawal of the Russian from the eastern region of Germany. Two Scandinavian countries, Denmark and Sweden had very modest housing programs in Russia, which complement the Russian Officer Housing Program.

**Question 28.** How much extra does it cost the U.S. to ship humanitarian assistance to the landlocked country of Armenia due to Turkey's blockade on shipments to Armenia across its border with that country?



Is there anywhere else in the world that such a blockade is in place and is adding to U.S. Government costs in transportation of humanitarian assistance to a country in need of that kind of help?

Answer. The cost of shipping humanitarian commodities through Georgia into Armenia is comparable and often cheaper than shipping through Turkey where truck must often be used. The more critical effect is felt in the tremendous amount of bulk and break bulk commodities, over 1.2 million metric tons in the period covering November 94 through May 95, that must be brought through the ports of Batumi and Poti on route to all three countries of the Caucasus. Though not more expensive, this situation causes tremendous logistical bottlenecks as commodities move precariously along an antiquated rail system to their destinations. Conflicts in the region and political posturing has led to the fact that there are no alternate routes through Turkey and now, with the war in Chechnya, through Russia to either Armenia or Azerbaijan. Georgia is the corridor through which assistance must flow. During the past winter, with assistance from the Caucasus Logistics Working Group and some innovative coordination between the European Union, the United States government and the recipient countries of the Caucasus assistance has flowed steadily into the region. However, we must remember that the Georgian railway system is a fragile antique of the former Soviet era that can be brought to its knees with the collapse of a bridge or the blowing up of a strip of rail line. It is imperative that the international community keep pressure on the Turkish government to lift its restrictions on commodities transiting Turkey enroute to Armenia.

Bosnia comes to mind where we have expended a tremendous amount of money in the airlift of humanitarian commodities. However, as a country being assaulted from within, it is in a different category than Armenia. The situation Armenia finds itself in appears indeed to be unique.

Question 29. How much use are our programs in the New Independent States making of American ethnic organizations that have members who are familiar with the languages and cultures of those countries?

Answer. The United States Government tries to make every effort to utilize the talents of people familiar with the languages and cultures of countries in the New Independent States. The Administration is engaged in a close dialogue with American ethnic organizations to find ways in which the talents of their members can be utilized more effectively in our assistance programs. This is a process that we are very committed to, and we will continue to work closely with these groups to find improve the coordination process.

Question 30. What efforts are we undertaking to expand our programs into regions of Russia—a large country—so that they may have an impact on the lives of people who may never have stepped outside their hometowns or seen a foreigner?

Answer. First of all, we must be realistic about the potential to reach all communities in Russia. Russia has 150 million people or so and our assistance request for Russia in the FY96 budget is \$260 million, that's less than two dollars per person per year. That having been said, we are making efforts to reach into regions of the country that have been isolated from the outside world. Our best such program is the high school exchange program. We have sent American representatives of this program into over 200 cities across the eleven time zones. This program has sent people into cities that have never seen an American. The high schoolers that visit the United States for one and two semesters come back profoundly changed by their experience. They have an impact on others in their communities who hear about America from these students upon their return—and for the rest of their lives. All of our exchange programs have this beneficial effect, but the high school program is able to reach out to many more Russian communities in the regions than any of the others. Other programs that have a broad geographic reach include the privatization program (77 of the 89 regions), health (five hospital partnerships), trial by jury (nine oblasts), housing, health and civic strengthening.

Question 31. Should we continue to fund our limited environmental programs in the NIS at a time of decreasing resources and when the World Bank is apparently involved in this area to a greater extent?

Answer. The NIS includes some of the world's most polluted regions and suffers significant adverse economic and health effects from environmental degradation. The U.S. has budgeted a cumulative total of nearly \$80 million as of the end of 1994 to help governments and people throughout the NIS upgrade the quality of their water and air, reduce industrial pollution and manage natural resources more effectively. Our programs emphasize working with regional authorities and strengthening environmental NGOs, so that once our assistance efforts phase down, local officials and grassroots organizations can continue efforts to monitor and improve the environment.



As assistance resources have declined, the U.S. Agency for International Development and the Environmental Protection Agency have worked to refocus and concentrate environmental assistance programs to maximize their impact in the NIS. To the extent possible, we seek to complement and leverage assistance activities by the World Bank and other bilateral donors. But the reality is that the World Bank will not be able to do the job alone, and the U.S. will continue to have unique contributions to make in environmental assistance, even as assistance resources continue to decline.

**Question 32.** I am concerned over more frequent reports that the Russian government is not paying debts it owes to companies and investors who provided goods, services and loans to it in good faith. In one recent instance, even when the Prime Minister ordered his government to repay a debt of over a billion dollars to the lender, no payment was made on the assigned date, and none has been made in the time since then.

What is the Russian government doing to address this problem with its creditworthiness? How can we expect to see American trade with and investment in Russia increase if this problem continues?

**Answer.** Since the break-up of the Soviet Union, Russia has experienced serious liquidity and cash flow problems servicing its international debt. In dealing with these problems, the government of Russia has been working closely with the International Monetary Fund to stabilize its economy and its external payments situation. As you know, based on past IMF programs, Russia has been able to negotiate successfully two debt agreements with official creditors, rescheduling the bulk of its official obligations, including those inherited from the Soviet Union.

We agree that the problem of unpaid commercial loans and supplier credits is serious and we regularly urge the Russian government to resolve it. We understand Russia has now agreed to pay the Bank Advisory Committee (a group of commercial bankers) \$500 million before the end of April and hopes to regularize its debt service obligations to these creditors.

In addition to commercial bankers, there are suppliers (companies) that did business without insurance against their commercial risk and have not been repaid. Russia has started to talk with uninsured suppliers through meetings with creditors organized according to their national groups. Although there is no US creditor group, US suppliers can choose to be represented by other national groups.

**Question 33.** The Committee continues to hear many horror stories about technical assistance to the former Soviet Union. Among the more striking are:

- An AID contractor who wanted to set up an e-mail network for legal professionals in St. Petersburg by placing it in the mayor's office, thereby assuring that only the cronies of favored local government officials would get access to critical information about city legislation and regulation;
- An AID contractor who proposed a law faculty exchange with a university law school that did not exist;
- An AID contractor who got a contract to develop the nonprofit sector in Russia but has never been in Russia, has no program officers who speak Russian, and has spent six months in a hotel suite driving up a huge tab while looking for office space;
- An AID contractor who has arranged for computers to be sent to friends of the organization rather than in the context of a strategy to promote greater public access to e-mail among NIS professionals in given fields.

Given these shortcomings of the AID selection process for its contractors, why should the committee continue to support technical assistance programs running into hundreds of millions of dollars?

**Answer.** I would like to begin my response by briefly clarifying the four examples you cite as horror stories about technical assistance. First, one of our contractors who wanted to set up an e-mail network for legal professionals in St. Petersburg did explore a relationship with a supplier who purported to be a legitimate private business. As you know, ownership issues in Russia are complex and some investigation is required to verify the bona fides of potential partners. When, in this case, the link between the partner organization and the Mayor's office became clear, the project was immediately abandoned. Second, regarding the law faculty exchange with a university law school that did not exist, we have no knowledge of a proposal by a USAID contractor for such an exchange. Third, the contractor in question is Save the Children, an internationally known and respected non-profit organization. They have closed the temporary office space at a Moscow hotel and now occupy permanent quarters in an office building. It is our understanding, however, that although located in a hotel, the cost of the temporary space was competitive with the cost of the permanent quarters. And finally, regarding your last example, when the association between a staff member of the contractor and a friend in the implement-

ing organization became known, the employment of the staff member was terminated and steps were taken by the contractor to assure that the computers are being used within the context of the program strategy.

I would point out that the majority of USAID's projects in the NIS are institution building in nature and involve the transfer of technology through training and technical assistance. Employing contractors with the required technical expertise is the best way to accomplish this transfer.

The selection of contractors follows a formal process designed to ensure competition not only in terms of cost of the services requested but also in obtaining services most responsive to the identified technical requirement.

The process begins with the drafting of a detailed scope of work which forms the basis for a request for proposals (RFP) from potential contractors. An important part of the RFP is a description of the criteria that will be used in evaluating the proposals. At a minimum, these criteria include the experience of the offeror with similar projects, the experience of the staff proposed to implement the project (including relevant work experience in the country and language skills) and, usually, the capacity of the home office to provide the necessary support to the implementation process (logistics, procurement, etc.)

When proposals are received, an evaluation panel consisting of technical staff with knowledge of the subject matter is brought together to review and independently score the proposals. A rank order is established based on the findings of the panel. The contracts office then negotiates the final details of the contract with the top-ranked offeror.

**Question 34.** A large part of AID's technical assistance effort has involved short-term training of NIS professionals for two-to-five week periods in the United States in a variety of fields. Because AID uses nominations rather than open recruitment to select these individuals, recruitment has been rather uneven, more a function of who you know than what you know. Furthermore, organizations used by AID to administer these training programs know very little about the former Soviet Union or the training needs of particular individuals, resulting in poor quality training. Could you comment on these problems?

**Answer.** When designing the New Independent Exchanges and Training (NET) project, USAID made a concerted effort to ensure that the training programs offered would be in support of the technical assistance efforts being undertaken in the particular USAID-recipient country. The rationale for this decision was that if the training was closely linked to technical assistance activities, returning participants might have a better opportunity for linkages with technical assistance contractors. We still believe that this is the most effective use of training funds; however, we do agree that the quality of the participants has been uneven. The major criticism made by both the trainees and training providers has been that the groups identified for training have been far too heterogeneous. To overcome this criticism, we have developed a more comprehensive application process which includes securing detailed information about the potential participant as well as providing the participant with more information about the training program that he/she is likely to attend.

We have also increased the time for the preparation of the programs to 12 weeks. This will allow us to give the training providers more preparation time and will also allow them access to the participant biographical data in order to tailor the programs to meet participant needs.

We have been aware of this problem for several months and have made the necessary corrections so that the FY 1995 program should operate more effectively. It should be noted that even though there are some problems with individual programs, participant evaluations have shown that 87.2% of the participants rate the training as being outstanding or exceeding expectations.

**Question 35.** Why is AID focusing so much of its technical assistance on short-term visits to the United States, among the least cost-effective ways to reach a broad base of professionals in various fields?

**Answer.** It is not clear from the question whether the issue is the short-term nature of the training or the fact that the training is provided in the U.S.

If the concern is the short-term nature of the training, then we would disagree that this is the least cost-effective way to reach a broad base of professionals in various fields. Clearly, short-term programs allow us to reach a larger audience than longer term programs.

If the concern is that the training is offered in the U.S., then it is important to remember that initially the NET project was under a Congressional Mandate to bring participants to the U.S. for training. While that mandate is no longer in force, we have continued to use this project for U.S.-based training because training in the U.S. provides participants the opportunity to observe the practical applications of

the training they are receiving. They are also exposed to our democratic institutions and political processes. It would be impossible to duplicate this aspect of the training activity were we to offer the same technical programs in-country.

**Question 36.** AID has also been supporting a less bureaucratic program involving partnerships between American universities, trade associations, business groups etc. and counterpart organizations in Russia and Ukraine in a variety of different fields central to market reform and democratization. However, funding was provided at about one-third the level of traditional AID approached to technical assistance and then was discontinued to fiscal year 1995.

Wouldn't broad-based partnerships between competent groups both here and in the former Soviet Union and Central and Eastern Europe reduce the bureaucracy, be much cheaper and address serious shortcomings in AID technical assistance effort?

**Answer.** When the partnership program was implemented, it was USAID's intent to fund an initial group of partnerships, assess how they were operating and then, if there was significant evidence of success, consider funding additional partnerships. The first round of partnerships have been identified. All will be operational on or around April 1. We will have some idea of whether they are successful in the spring of FY 1996. At that time, we can consider whether to utilize FY 1997 funding to support additional programs of this kind. We are in no position currently to determine whether these programs will be more effective than the traditional technical assistance activities undertaken by USAID.

**Question 37.** Why has AID not used the professional partnerships concept more decisively in the provision of technical assistance?

**Answer.** Once we do an initial evaluation of the effectiveness of the partnerships, we will be in a better position to consider how this mechanism can be used in future training projects. We do have many other activities involving partnerships in other technical areas, including energy, environment, agribusiness, independent media development, business, hospitals and PVO linkages.

Implementation begins once a contract is signed. The field missions, in conjunction with Washington-based project officers, monitor implementation based on an agreed upon work plan which is normally the first deliverable required under the contract. Through constant interaction, the submission of required status reports, and review meetings all parties stay abreast of implementation and are positioned to make adjustments when conditions so dictate.

The mechanism just described, while not fool-proof, does provide a reasonable set of checks and balance to keep implementation on track in accordance with established work plans and to minimize the occurrence of the horror stories alluded to above. The alternative to hiring required to achieve program objectives would be to increase the size and expand the technical skills of the AID direct hire staff so that they could do the job. With the wide variety of technical skills called for by the projects being implemented, this would require an enormous, and costly, increase in staff size. The use of contractors, therefore, provides a cost-effective means for achieving the objectives set out for our assistance programs.

**Question 38.** The Freedom Support Act refers specifically to the provision of baby food as one of the types of humanitarian assistance that should be provided under the authority of that act. Has processed baby food been provided in any significant amounts under our assistance programs for the Soviet republics? If not, why?

**Answer.** In FY 93, the US Department of Agriculture under Food for Progress provided \$45.7 million which included over 13,000 metric tons of baby food for Russia and Belarus. No additional baby food was provided from Food for Progress due to the high cost of shipping processed baby food and the difficulties experienced with cultural acceptability. In place of the baby food, bulk foods have been provided that could be used by mothers to provide food for their children.

In addition, U.S. humanitarian food aid to the former Soviet Union includes a USAID program utilizing Freedom Support Act funds to target U.S. agricultural commodities to pregnant women, lactating mothers, and children up to age five. Last year this program provided commodities to target populations in Armenia, Azerbaijan, Georgia and Tajikistan and included six different commodities: rice, whole dried milk, pulses, vegetable oil, wheat flour, and farina. All were selected for their cost effectiveness, cultural acceptability, logistical characteristics, and their ability to be flexibly applied towards the nutritional needs of women, small children and infants. They are traditional ingredients from which mothers can improvise many infant weaning foods, and also address the needs of mothers themselves. This year's program will provide similar commodities to a narrower target population in the same four countries.

Consideration was given to use of processed infant foods, but this revealed significant drawbacks. First, such foods are not cost-effective in comparison to other com-





modities when relative shipping costs are taken into account. Second, donations of unfamiliar processed foods can send harmful signals to mothers that traditional weaning foods, based on local ingredients, are inadequate. Finally, assessments by governments, international organizations, and non-governmental organizations in recipient countries have not identified processed infant foods as a humanitarian need.

Pediatric nutrition surveillance data collected in the recipient countries for the fiscal year 1994 program indicated no acute or moderate malnutrition among small children. This implies that coping strategies and provision of general food assistance have so far been adequate to avoid adverse impact on vulnerable groups.

*Question 39.* Numerous reports of the Administration's technical assistance effort in the former Soviet Union have been quite critical. Criticisms have included: 1) a lack of regional or language competent officers involved in the administration of the programs; 2) a procurement process that often awards large contracts to a handful of organizations who lack this competence as well but are well-known to USAID officials; and, 3) large sums of money spent by USAID contractors on overhead, consulting fees, and the setting up of costly infrastructure that could have been avoided had a broader group of more experienced organizations who have already invested their time and money been utilized.

—How do you respond to these criticisms?

—How have these shortcomings affected the quality of programs for training of professionals from the former Soviet Union?

*Answer.* Two-thirds of our professional staff in Moscow have been tested at a level 2 language ability (working proficiency) or above. Professional staff assigned to other NIS missions also receive language training, and 50% speak Russian at the working proficiency level or higher.

For our consultants, we stress the need for language skills and regional expertise. It is not easy to identify consultants who combine fluency in regional languages with a specific technical expertise, but we have had success locating consultants with language skills and regional expertise along with technical expertise.

Awards under the USAID NIS program reflect a great diversity of firms and organizations. Organizations and firms located in 42 states and the District of Columbia now participate directly in the USAID NIS program. Many are new contractors and grantees who previously never worked with USAID. The states with the largest number of awardees are: District of Columbia, New York, Maryland, Virginia, California, Connecticut, Illinois, Massachusetts, Minnesota, Pennsylvania, Washington, Wisconsin.

Few firms operated in the NIS before the start-up of the USAID program in 1992–1994. Thus, some amount of funds had to be invested to increase capacity, including infrastructure, to manage the program. This build up phase can also be seen as an opportunity for US firms to establish a presence in the NIS that will continue after USAID funding runs out.

Regarding overhead costs, USAID follows Federal Government regulations for overhead costs as required by the Federal Acquisition Regulations and defined by the Generally Accepted Accounting Principles.





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